



***Clariant Annual Report 2008***



Exactly your chemistry.

# FINANCIAL SUMMARY

KEY FIGURES	2008	2007
	CHF mn	CHF mn
Sales <sup>1</sup>	8 071	8 533
Operating income before restructuring, impairment and disposals <sup>1</sup>	530	539
Net Group loss/income before minorities	-37	5
Operating cash flow	391	540
Total assets	5 946	7 285
Total Equity including minorities	1 987	2 372
Investment in property, plant and equipment	270	312
Staff costs <sup>1, 2</sup>	1 759	1 930
R&D costs <sup>1</sup>	184	211
Basic earnings per share CHF	-0.20	-0.01
Distribution per share CHF	0.00	0.25

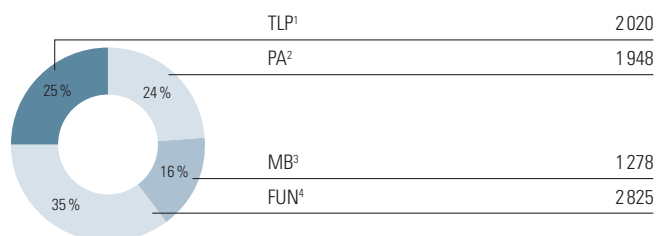
<sup>1</sup> Continuing operations

<sup>2</sup> Staff numbers: 20 102 (2008), 20 931 (2007 continuing)

## SALES BY DIVISION

CHF mn

Total 2008: 8 071



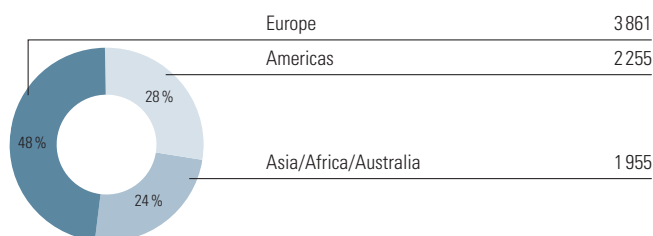
<sup>1</sup> Textile, Leather & Paper Chemicals  
<sup>2</sup> Pigments & Additives

<sup>3</sup> Masterbatches  
<sup>4</sup> Functional Chemicals

## SALES BY REGION

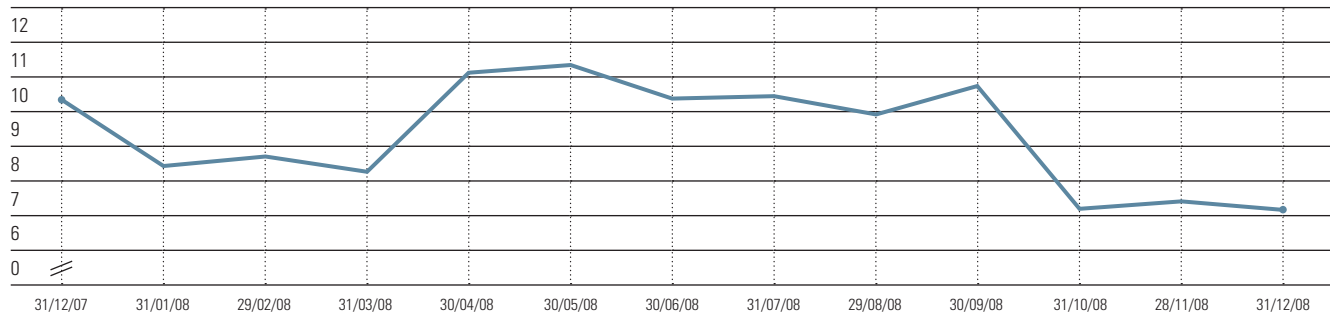
CHF mn

Total 2008: 8 071



## SHARE PRICE DEVELOPMENT from 1.1.2008 till 31.12.2008

Share Price in CHF



# COMPANY PROFILE

Clariant is a world leader in specialty chemicals. Combining excellence in chemistry with high international standards and global reach, we can provide our customers with consistent quality wherever they are located. Headquartered in Muttenz near Basel, Switzerland, we are represented on five continents by more than 100 Group companies, employing more than 20 000 people. In 2008, we generated sales of approximately CHF 8.1 billion. Our businesses are organized into four divisions:



## ➤ MASTERBATCHES

Clariant's Masterbatches Division (MB) is a world leader in color and additive concentrates and performance solutions for the plastics industry. Our global reach and unrivaled color-matching competencies combine with superior service to reduce customer costs and time to market. Our solution-driven, creative and technical resources help manufacturers – from consumer goods, to packaging, to medical devices – take advantage of color and additive masterbatches to increase consumer appeal and enhance product performance. Our unparalleled international presence and extensive local production capabilities deliver demonstrable value to a dynamic, global marketplace.



## ➤ PIGMENTS & ADDITIVES

Clariant's Pigments & Additives Division (PA) is one of the world's leading providers of colorants for coatings, plastics and a key player in the global additives market. Whether developing long-lasting color pigments for automobiles, buildings, photographs, or manufacturing cutting-edge waxes for industrial appliances, we consistently demonstrate a commitment to quality, safety, sustainability and value. We set ourselves apart from the competition by combining a wide range of products with value-added expertise in fields such as global regulatory legislation.



## ➤ TEXTILE, LEATHER & PAPER CHEMICALS

Clariant's Textile, Leather & Paper Chemicals Division (TLP) delivers chemical solutions to sectors as diverse as fashion, packaging and automotive. From the cutting-edge material used to manufacture car seats, to paper-brightening enhancers, and an evolving dyestuff range which matches latest color trends, our solutions make a subtle yet significant impact on the everyday lives of people wherever they are. An industry leader and a partner to our many global, brand name customers, we ensure high quality and complete consistency across all markets.



## ➤ FUNCTIONAL CHEMICALS

With a portfolio based on surfactants, glyoxal derivatives, polymers and other specialties, Clariant's Functional Chemicals Division (FUN) delivers a broad range of high-performance products and services to a diverse range of industries including; agrochemicals, automotive, aviation, coatings, home and personal care, pharmaceuticals and paints. With a dedicated organization Clariant combines market-leading chemical expertise with tailor-made service to meet the needs of the oil, gas and mining industries. Whether working with an oil company to prevent corrosion of pipes in deep-water oil production, collaborating with a detergent manufacturer to create a highly effective washing powder or supplying airports with de-icers to keep aircraft and airports operational during winter, we are a trusted partner for customers whatever their business.

***In the face of** raw material price volatility and the global economic slowdown in 2008, we improved our operational margin and delivered a solid cash flow. We face no maturities until 2011. However, our performance lags behind many of our peers. Hence we will accelerate our restructuring efforts, drive down costs and “right-size” ourselves for declining demand.*

*This is how we will meet the expectations of our stakeholders and the demands of the marketplace.*

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*Moving forward, we will accelerate our restructuring efforts and focus on operational excellence.*

# ***ANNUAL REVIEW***

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# DEAR SHAREHOLDERS,

Our company achieved an improved operational margin and a solid operating cash flow in 2008 against the backdrop of a steep decline in demand in the last quarter. However, our performance is still lagging behind many of our peers – a position that poses a particular threat to us in the worst and most unpredictable economic environment the industry has seen for decades. Hence, we will accelerate our restructuring efforts in order to catch up with our competitors while at the same time making adjustments for declining demand in our markets.

During 2008, sales amounted to approximately CHF 8.1 billion, which translates into a 1 percent growth in local currencies and a decline of 5 percent in CHF. The economic downturn hit the majority of our major markets and orders declined dramatically towards year-end.

We were able to compensate for the rise in raw material costs in the first nine months of 2008 by a full year-price increase of 7 percent compared to the previous year. However, due to unused capacity utilization created by the low demand towards the end of the year, our gross margin dropped to 28.7 percent from 29.2 percent a year ago. Due to our efforts to reduce Sales and General Administration (SG&A) costs to 20.3 percent from 20.8 percent in 2007, our operating margin before exceptional items improved to 6.6 percent from 6.3 percent in the previous year. Operational income before exceptionals reached CHF 530 million.

Following the deterioration of the leather and textile markets and their uncertain evolution in 2009, Clariant revised the plans for these two businesses, which led to an impairment of CHF 180 million which was booked in Q4 2008.

Our operating cash flow was solid in 2008 and reached CHF 391 million compared to CHF 540 million in the previous year. Net debt went down by 11 percent to CHF 1.2 billion from CHF 1.4 billion. We will not face maturities in capital markets for the next three years as we refinanced all mid- and long-term loans under favorable conditions between April 2006 and July 2008.

Our organization went through two distinct phases during fiscal year 2008. In the first nine months, we continued to benefit from the then stable economic environment. Our focus on improving operational excellence as well as our stringent price-over-volume approach paid

off, resulting in improved operational performance. In the fourth quarter, we were significantly impacted by a dramatic decline in demand that led to deteriorating performance. Faced with a high cost base and a pronounced organizational complexity, we saw an obvious need for a leaner and more flexible structure in order to react quickly and appropriately to the unfavorable economic climate and thereby maintain the delivery of high results.

Despite our achievements in 2008 and a very solid balance sheet, we are not satisfied with our current competitive position in the industry. We lag behind our peers in most key performance indicators. In order to react to this unfavorable situation and gain speed and momentum through operational excellence, we have strengthened our Board of Directors by bringing in three new members with expertise in the chemical industry – Dominik Koechlin, Hariolf Kottmann and Carlo Soave. These new members replace Roland Lösler, Kajo Neukirchen and Tony Reis who have retired from the Board. In addition, the Board of Directors appointed Hariolf Kottmann to the position of Chief Executive Officer effective October 2008. The Board is convinced that under the leadership of Hariolf Kottmann, our independent, Switzerland-based company will become a top-performing, sustainably profitable chemical industry player.

Following the Annual General Meeting on April 10, 2008, Jürg Witmer took over from Roland Lösler as chairman. Following a very successful career at Clariant spanning close to four decades, Roland Lösler decided not to stand for re-election for personal reasons. The Board thanks him and the other retired members for their long-lasting support and dedication.

2009 will doubtless be one of the most challenging years in our company's history to date. Many of our markets – most prominently, the U.S. – are in deep recession and unlikely to recover within the immediate future. Adverse economic conditions will impact Asia owing to its dependence on exports. Europe will also suffer from the effects of recession, reducing prospects for some of our key customers in such industries as automotive, plastics and construction. The Middle East and Latin America may show some resilience, but this is unlikely overall to mitigate the negative impact on our top line. In addition, our ability to predict how economic conditions will develop within the next few months or even quarters is very low.





*Jürg Witmer*  
*Chairman of the Board of Directors*

*Hariolf Kottmann*  
*Chief Executive Officer*

In this environment, we will adapt our structures to the economic situation by decisively downsizing the company and reducing expenditure – in particular SG&A costs. We will significantly decrease personnel costs and further reduce our workforce by an additional one thousand positions on top of the approximately 2 200 headcount reduction announced in 2006, of which approximately 1 650 have already been realized. In order to finance our restructuring activities, our focus in 2009 will be on cash generation as new loans are either not available or not affordable in the current financial crisis.

In line with our focus on cash generation, the Board of Directors will recommend withholding dividends, grants and other shareholder payouts for 2008. The Board will propose this motion at Clariant's 14<sup>th</sup> Annual General Assembly to be held on April 2, 2009.

We can neither predict how serious the global economic crisis will be nor how long it will last. However, we are preparing ourselves for challenging times ahead by focusing on cash generation, decreasing costs and reducing complexity.

In order to improve and maintain our profitability, competitive position and customer service, we will introduce LeanSigma continuous improvement processes across the entire company. These processes will also help to safeguard the company against challenging economic developments in the future.

We are aware of the fact that turning Clariant into a top-performing chemical company will be a painful, time-consuming process. We would like to take this opportunity to thank our employees for their outstanding contributions in 2008. Without their dedication and achievements, our company would doubtlessly be in a more critical situation than it is today. And we are counting on their continued commitment during the fiscal year ahead.

Thanks to our global talent and asset base and diversified product portfolio – and through undertaking a rigid process of restructuring – we believe that we can sustainably increase our profitability. We wish to thank our shareholders for their loyalty during this challenging period.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Witmer', written in a cursive style.

**Jürg Witmer**  
*Chairman of the Board of Directors*

A handwritten signature in black ink, appearing to read 'Kottmann', written in a cursive style.

**Hariolf Kottmann**  
*Chief Executive Officer*

# BUSINESS SUMMARY

## **BUSINESS TRENDS AND ACHIEVEMENTS IN 2008**

### ➤ **STRONG CASH FLOW COMPENSATED FOR DIFFICULT TRADING CONDITIONS**

- Our operational cash flow reached CHF 391 million despite being negatively impacted by inventories built-up during the first nine months of the year to bridge supply shortages in some raw material markets.

### ➤ **IMPROVED GROSS MARGINS DUE TO ADOPTION OF AN AGGRESSIVE PRICE-OVER-VOLUME STRATEGY AND FOCUS ON COST SAVINGS**

- Our operational margin before exceptional items met our target, rising to 6.6 percent from 6.3 percent in 2007.

- We raised our prices by an average of 7 percent, adopting a strong price-over-volume strategy.

- We reduced our SG&A costs from 20.8 percent in 2007 to 20.3 percent in 2008.

### ➤ **SOLID DEBT AND LIQUIDITY POSITION WITH A GREAT MATURITY PROFILE**

- Our liquidity position is strong.

- Reduction in debt from CHF 1.4 billion in 2007 to CHF 1.2 billion in 2008.

- Our Group will not face capital market maturities until 2011.

## **OUTLOOK**

### ➤ **SLOWDOWN SET TO CONTINUE INTO 2009**

- We are unable to accurately predict how long the slowdown will last and its overall impact on demand in 2009.

- "Right-sizing" the organization to match demand is a high priority.

### ➤ **FOCUS ON CASH FLOW AND COST REDUCTION**

- Our clear focus in 2009 will be on generating cash in order to successfully overcome the economic downturn and to finance restructuring.

- We will decisively drive down costs and adapt our structure to match the fall in global demand.

*“We are determined to continue improving our position versus that of our peers by accelerating our restructuring and cost reduction efforts.”*

HARIOLF KOTTMANN, CHIEF EXECUTIVE OFFICER

## OVERVIEW

In 2008 we made significant operational progress with improved margins and a strong cash flow. However, we are still lagging behind our competitors in the chemical industry. Accelerating restructuring and rapidly establishing a culture of excellence to reduce costs and complexity are vital if we are to close the gap between our performance and that of our peers amidst the worst slowdown the world economy has seen in a decade.

## A. FINANCIAL REVIEW

### SALES, MARGINS AND COSTS

Our sales in 2008 of CHF 8.1 billion equated to a 5 percent decline in CHF. However, by raising our prices by an average of 7 percent, adopting a strong price-over-volume focus, and reducing SG&A costs from 20.8 percent in 2007 to 20.3 percent in 2008, we succeeded in offsetting industry-wide raw material cost increases and compensated for the economic slowdown. Our operational margin before exceptional items met our target, rising to 6.6 percent from 6.3 percent in 2007.

The final quarter had a major impact on many of our markets. Our ability to manage capacity was critical to mitigating the drop in demand. We reduced production in the last few months of 2008 by extending holidays, shortening work hours and terminating contract work. In 2009, we will further restructure and ensure we “right-size” our organization to give us the right cost base.

Our operational cash flow reached CHF 391 million despite being negatively impacted by inventories built up during the first nine months of the year to bridge supply shortages in some raw material markets, such as optical brighteners (OBAs) for the paper industry. Costs for some materials, such as diaminostilbene (DAST), which is used in OBAs, increased by more than 400 percent during the year and key feedstock prices such as naphtha and Brent Crude increased by more than half. However, lagging economic confidence and reduced forecasts in the final quarter of the year led to a downward trend across many of our feedstocks.

### RESULTS BY DIVISION

#### **Textile, Leather & Paper Chemicals suffers from slowdown**

Our Textile and Leather businesses in particular suffered from rapidly deteriorating market conditions resulting in a reduced overall turnover and lower margins. The harsh economic climate in the U.S. spilled over into Europe, with a global negative impact for these markets. Although we continued to experience healthy growth in Asia and Latin America for most of the year, even these regions weakened in the final quarter. As a result of this deterioration and its uncertain evolution in 2009, we revised our plans for these two businesses. This led to an impairment of CHF 180 million, which was booked in Q4.



*Hariolf Kottmann (CEO)*



*Patrick Jany (CFO)*



*Dominik von Bertrab*

For the paper business, profitability was impacted by the unprecedented hike in raw material costs during the first three quarters of 2008.

To counteract the challenges of the marketplace, the Division implemented a “Low Cost FOCUS” strategy to reduce complexity, overheads and production costs. In spite of our achievements in pricing and cost reduction, by adapting our structures to market needs, our profitability fell to 4.3 percent from 6.2 percent in 2007.

#### **Masterbatches maintains market position**

Despite facing a challenging business climate during much of the year, our MB Division maintained its leadership position with a limited drop in sales of less than one percent in local currencies. Emerging markets such as Asia, the Middle East and South America delivered strong growth. Nevertheless, these markets could not compensate for tougher conditions elsewhere. Slowing demand in the second half of the year spread from the U.S. into Europe with reduced volumes in countries particularly exposed to vulnerable markets such as automotive. As a result, the Division saw a decrease in margins from 9 percent in 2007 to 7 percent in 2008.

#### **Pigments & Additives sees margin improvement**

The PA Division fared well during the first three quarters with strong sales and improved margins as a result of cost-cutting and portfolio management measures. However, the fortunes of the automotive and construction sectors declined dramatically at the end of the final quarter in response to the downturn, which significantly reduced demand for PA products. The Division achieved a year-on-year EBIT improvement of two percentage points, up to 11.1 percent as a result of its aggressive price-over-volume strategy. The successful implementation of LeanSigma process improvement projects and training programs delivered significant cost reductions in 2008.

#### **Functional Chemicals delivers growth and improved margins**

Our FUN Division grew by 3 percent in CHF in 2008 with crop protection, oil services, de-icing and personal care showing particular strength. In addition, our de-icing business had a record year. Price increases of 11 percent across the Division fully compensated for escalating raw material costs. The Division achieved higher volume growth and prices in Asia, while in Europe and the Americas increased prices led to solid growth. This, combined with efficiency measures and a portfolio shift, led to substantial improvements in operating margins. EBIT increased to 8.8 percent from 7.1 percent in 2007. Nevertheless, some of the Division’s other markets demonstrated signs of slowing down towards the end of the year.

#### **BALANCE SHEET**

Clariant's balance sheet remained strong with a solid liquidity position and an almost unchanged gearing.

Total assets decreased to CHF 5946 million from CHF 7285 million at the end of 2007. While inventories and trade receivables physically remained stable, the repayment of financial debts, a strong increase in the exchange rate of the Swiss franc and an impairment charge in the amount of CHF 180 million contributed to this



*Okke Koo*



*Peter Brandenberg*



*Siegfried Fischer*

effect. Cash and cash equivalents decreased to CHF 356 million as of December 31, 2008 from CHF 509 million at the end of 2007. This was the result of a reduction in financial liabilities and improved net working capital management in the fourth quarter.

Equity decreased to CHF 1 987 million from CHF 2 372 million in a year-on-year comparison. This was the overall effect of a net loss before minorities of CHF 37 million during the reporting period, the negative impact of foreign exchange rate movements and the capital reduction of CHF 57 million.

Current financial debt decreased to CHF 268 million from CHF 728 million at the end of 2007, whereas non-current financial debt increased to CHF 1 297 million from CHF 1 267 million. The former is the result of the pay-back of a bond in the amount of CHF 384 million in March 2008, while the latter is the net effect of the issuance of a certificate of indebtedness in the amount of EUR 100 million in July and exchange rate differences. After these financing transactions, the Group currently does not face maturities in capital markets until 2011 as all mid- and long-term debt was refinanced under favorable conditions between April 2006 and July 2008.

The company's net debt reduced to CHF 1 209 million from CHF 1 361 million at the end of 2007, in the main due to foreign exchange rate fluctuations. Gearing, which reflects net financial debt in relation to equity including minorities, increased to 61 percent as of December 31, 2008 from 57 percent at the end of 2007.

#### EARNINGS PER SHARE

The total number of Clariant shares at year-end 2008 was 230 160 000. The weighted average used to calculate results per share was 226 532 736, compared to 227 153 836 at the end of 2007. Continuing operations posted a loss of CHF 0.16 per share while discontinued operations posted a loss of CHF 0.04 per share, leaving a net loss for the Group of CHF 0.20 per share. This compares to a 2007 Group net loss of CHF 0.01 per share.

#### DIVESTMENTS AND ACQUISITIONS

On July 1, 2008, we acquired the combined companies of Rite Systems, Inc. and Ricon Colors Inc., leading U.S. suppliers of both liquid and solid masterbatch technologies. Together, the companies hold the number two market position in liquid masterbatches, achieving sales of USD 50 million in 2007. The acquired companies' outstanding reputation in liquid masterbatches will allow our MB Division to expand its service offering in North America, especially for customers in the packaging and consumer goods market segments. It will also enable us to leverage this new competence into other regions where Clariant enjoys strong market positions such as Europe, Asia and Latin America. The purchase amount was CHF 39 million. We also incurred goodwill of CHF 19 million as a result of the acquisition.

In November, we agreed to sell the Netherlands-based wax emulsion and flame retardant manufacturer Dick Peters B.V. to the German specialty chemicals group ALTANA. The transaction was worth EUR 18 million and complements the existing wax emulsion business of the ALTANA subsidiary BYK-Cera.

### SOLID DEBT AND LIQUIDITY POSITION

Our debt maturity profile is solid. Our Group will not face capital market maturities (bonds, certificates of indebtedness) until 2011 and our liquidity position is strong. Local rollover loans – almost all of them net working capital financings – are well diversified, being based on a large number of banks worldwide. The absolute volume of our short-term financings remains low and our available headroom under existing committed and uncommitted credit facilities is up to CHF 1 billion.

## B. MANAGEMENT REVIEW

### OUR ACHIEVEMENTS

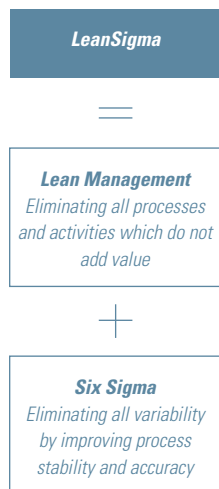
- › **Cost reduction in production and SG&A:** We focused our energies on cost reduction activities in 2008 and will accelerate these efforts in 2009. Site closures at Horsforth and Selby in the U.K., Coventry in the U.S. and Naucalpan in Mexico proceeded as planned, maximizing the efficiency of our production network. During 2008, we undertook numerous projects to reduce SG&A costs across the business by leveraging our comprehensive LeanSigma process improvement and cost-cutting initiatives. The LeanSigma program combines the Six Sigma approach, which is widely used in production processes, with Lean Management techniques to reduce waste and activities which do not add value to us or our customers.

A good example of an organization-wide LeanSigma project undertaken during the year is Energy 2010. This key initiative aims to reduce annual fuel consumption by 10 to 15 percent by 2010 (based on 2005 figures) and sustain those annual savings. This would deliver an annual cost reduction of CHF 30 million and reduce carbon dioxide emissions by 100 to 130 million tons per year.

Other LeanSigma projects undertaken in 2008 include:

- › Substantially reducing SG&A costs in our Leather business.
  - › Reducing cycle time in the manufacture of optical brightening agents within TLP.
  - › Reducing the number of credit notes issued to PA customers.
  - › Optimizing the manufacturing processes for paper dyes to reduce cycle times and production costs and increase yield.
  - › Decreasing the downtime of reactors used to make FUN products at the Clear Lake, Texas, plant.
- › **Increased prices for all divisions:** Our value-based selling and value capture strategies are both paying off. As a result, we have been able to increase our value proposition to customers. Across all divisions, we have successfully implemented price increases by an average of 7 percent, fully compensating for the raw material price rises earlier in the year.
  - › **Strong cash flow maintained:** Despite industry-wide raw material price rises and shortages in the first three quarters in particular, we were able to maintain a strong cash flow. In 2009, we will further improve our cash flow situation. We have halted all non-critical capital expenditure (CAPEX) projects and have put a hold on all non-critical spend items. We are also implementing LeanSigma across all processes. In parallel, we are reducing working capital, particularly targeting inventories and receivables. We expect to see the positive outcome of these measures midway through 2009.

#### LeanSigma Approach



## MEETING THE CHALLENGE

Despite the very challenging year ahead for the chemicals sector, we are determined to continue improving our position versus that of our peers. Our aim is to achieve an industry average Return on Invested Capital (ROIC) for the chemicals industry by 2010. To achieve this, we must accelerate our restructuring plans and deliver improved cash flow and cost reduction. At the same time, we must provide added-value to our customers through leveraging our global strength and expertise. For example, our customers benefit from our knowledge of regulatory compliance for legislation such as REACH as well as company protocols. Through this knowledge, we help ensure customers meet these standards wherever in the world they are based.

In order to combat the economic downturn and meet our performance targets, we are initially taking a three-pronged approach:

- › **Generate cash:** To improve our competitive edge and generate the funds to restructure, we must radically improve cash generation. A special task force has been created to target this issue and ensure that every part of the business improves its situation regarding net working capital, inventories and receivables. We will tightly manage purchasing and renegotiate contracts.
- › **Reduce costs:** In the first quarter of 2009, we will make a head count reduction of at least 1 000 employees (in addition to the 2 200 announced in 2006). Capital expenditure projects will be re-prioritized and continue to focus on reducing SG&A costs.
- › **Reduce complexity:** In the first quarter of 2009, we will complete a business-wide review and restructuring plan. The review is designed to simplify the organization and speed up decision making. This will enable us to accelerate our reforms to catch up with the competition and “right-size” our organization for the economic slowdown. Measures will include the increased use of third-party distribution systems, streamlining our management structures and pruning the product portfolio.

Once these activities are underway, we will deliver continuous improvement through “Clariant Excellence”, which is based on LeanSigma processes. The program provides managers with the skills, techniques and resources they need to drive a culture of excellence through the organization ensuring we reduce waste, lower costs and manage the business effectively. Clariant Excellence is divided into four workstreams – “Operational Excellence”, “Commercial Excellence”, “People Excellence” and “Innovation Excellence.” We are currently focusing our efforts on the first three workstreams. Later, when we have built a firm foundation for future development, we will turn our attention to “Innovation Excellence” to give our customers the business edge they need to succeed. Once these are achieved we will look for growth opportunities through portfolio activities, new processes and new products.

Despite considerable economic challenges, we are confident that by focusing on cash generation, decreasing costs and reducing complexity, we can overcome current marketplace conditions and continue to drive towards a positive future. Thanks to our diversified portfolio, global reach, a clear strategy and, most of all, the commitment and hard work of our people, we will improve and sustain our profitability and competitive position.

# MASTERBATCHES

## **BUSINESS TRENDS AND ACHIEVEMENTS IN 2008**

### **› SLOWDOWN IN DEMAND HAS SPREAD TO ALL WORLD REGIONS**

- Inventory reduction is taking place throughout the value chain.
- Packaging applications remain relatively resilient to the downturn.

### **› MODERNIZATION OF PRODUCTION NETWORK**

- Upgrades and/or expansions were made to manufacturing facilities in Germany, Saudi Arabia and Indonesia in addition to opening of a new facility in Guangzhou, China, replacing an old plant.

### **› ACQUISITION OF RITE SYSTEMS AND RICON COLORS**

- Acquiring these leading U.S. colorant suppliers gives Clariant access to world-class liquid colors technology, enabling the Division to provide customers around the world with a truly full-service color offering.

### **› OPENING OF PARIS TECHCENTER**

- Sophisticated regional development and skills center offers color-matching tools, the latest prototyping equipment and expert staff for creative color solutions.

## **OUTLOOK**

### **› DETERIORATING MACRO-ECONOMIC ENVIRONMENT**

- This will continue to hit sectors such as construction, automotive and textiles – directly impacting the masterbatches industry. We will respond with cost reductions and efficiency improvements to bring costs in line with sales volumes and invested capital.

### **› GROWING ENVIRONMENTAL AWARENESS**

- The trend provides us with the opportunity to take a leadership position in developing more environmentally-friendly products using natural, biodegradable, compostable and recyclable materials.

### **› POSITIVE LONG-TERM PROSPECTS**

- Despite the economic downturn, mid- and long-term prospects for the masterbatches industry remain positive and are expected to surpass Gross Domestic Product (GDP) growth.



*“As a world leading masterbatch company, we have the expertise, global reach and capability to deliver real value to our customers.”*

DOMINIK VON BERTRAB, HEAD OF MB DIVISION



## PROFILE AND STRATEGY

### CORE COMPETENCIES

We hold strong positions in the packaging, consumer goods, automotive and fiber segments. Recognizing that proximity and speed to market are key success factors, we operate more than 55 full-service manufacturing facilities and have a presence in more than 30 countries. Eighty percent of our customers are within 400 kilometers of a production plant. With our global reach, we are a preferred partner for international companies. We also support our customers in the areas of global color trending, product design, international regulatory compliance, process development and multi-substrate color consistency. Our key account network delivers “single-point accountability” through every stage of a product’s life, no matter where in the world it is made.

### PRODUCTS AND SERVICES

We leverage our strong industry position by marketing the following lead masterbatch product brands: **REMAFIN®**, **RENOL®**, **CESA®**, **HYDROCEROL®** and **OMNICOLOR®**. We supply these brands in conjunction with two comprehensive service offerings: **ColorWorks™** and **360° Service™**.

**ColorWorks:** Our global ColorWorks network provides advanced color development and color management services. Our team assists customers from the design phase right through to the production of their products, evaluating everything from color trends to regulatory compliance. These efforts drive the innovation and development of new color concepts that heighten shelf impact, differentiate brands, accelerate speed to market and ensure color consistency around the world. Since its inception, the global ColorWorks network has been especially successful in supporting our personal care packaging business and this strong focus will continue. In addition, in 2008 we expanded the global ColorWorks capabilities to support other market segments such as automotive and consumer goods.

**360° Service:** Our comprehensive 360° Service offering supports our entire business. It provides customers with outstanding expertise in color and additive chemistry, polymer and processing methods, product design, customer demographics, global market research analysis, compliance requirements and multi-continent manufacturing.

### STRATEGIC GOALS

To counter the economic challenges facing our entire industry, we are taking strategic steps to help us stay ahead in the global masterbatches market.

- › **Investigate new, potentially lucrative markets:** To capture growth opportunities, we are strengthening our position in emerging markets in Asia, the Middle East and South America.
- › **Reduce costs:** To maintain margins, we will continue to drive forward with continuous improvement measures. We are adjusting staffing levels at specific sites where volumes have declined.

Employees

**3610**

Sites

**57**

Countries

**33**



## STRATEGIC GOALS (CONTINUED)

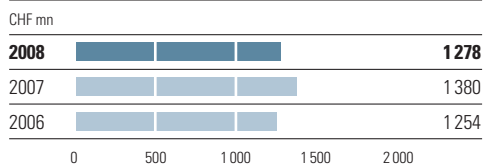
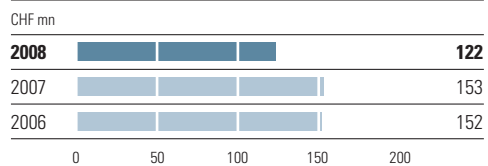
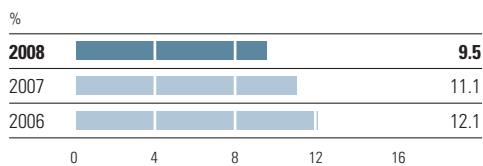
- › **Focus on green solutions:** We are working with customers to address the growing demand for environmentally-responsible products. These include organic, biodegradable materials and advanced process-efficiency and waste-reduction technologies.
- › **Compliance:** In an increasingly complex global marketplace, we guide our customers through constantly changing regulatory requirements and company protocols and help them to apply the required standards across all markets.

## FINANCIAL AND MARKET REVIEW

The demand for our products declined with increasing momentum during the year. Weak market conditions in the U.S., in particular in the automotive and housing sectors, spilled over to Europe and, in the last quarter, to the other regions. Consequently, sales declined 1 percent in local currencies and 7 percent in CHF.

The weakening demand development caused under utilization of capacities in the last quarter. The Division's decisive action on reducing temporary employees and overtime, as well as extended plant shutdowns over Christmas, mitigated the impact of slowing demand on operating profitability but could not totally offset it. As a result, the operating margin of the Division was lower compared to 2007.

## SALES

EBITDA<sup>1</sup>EBITDA<sup>1</sup> MARGIN

<sup>1</sup> Before restructuring and disposals

## MASTERBATCHES NEWS

### *Soothing the Savage Seas*



*As the global demand for oil grows, engineers continue to explore new ways of extracting ever deeper beneath ocean beds. The pipes used to raise oil from wells fixed to the sea floor to floating platforms on the surface have to survive in some of the toughest environments. MB has a number of solutions that help to keep the oil flowing safely and efficiently. Combinations of UV and thermal stabilizers, nucleating agents and carriers are used to add toughness and long-term durability to the polymers that protect these pipes. Chemical foaming agents also provide efficient insulation against the cold conditions. These innovations are expected to reap significant financial rewards in the coming years. ◀*



### *Slick on the Slopes*

*When Black Diamond Equipment Ltd. began developing what would become the first American-made ski boot in 25 years, they saw color as a means to make a clear statement: These are boots for skiers who care about performance, comfort and style. Black Diamond's boot developers looked to Clariant's peerless color and plastic materials expertise. MB specialists perfectly matched Black Diamond's desired colors. A pearlescent special effect achieved a spectacular look. Now in full production, the Black Diamond ski boot stands out both in retail stores and on the slopes. ◀*



### *Innovation Central*

*In 2008, Clariant MB introduced several new key products and services. MB's CESA®-natur additive masterbatches feature naturally occurring substances that are completely renewable, biodegradable and, in most cases, compostable. They include anti-slip and anti-block agents, UV and light stabilizers, antioxidants and antistatic agents. Along with RENOL®-natur color masterbatches introduced in 2007, they are ideal for use with environmentally-friendly biopolymers in green packaging and consumer goods applications. MB also introduced a special "Fade" effect for packaging. This dramatic new concept features seamless transitions between colors and leverages Clariant's special effects and multilayer blow molding expertise. Because the "Fade" is developed during the molding process in the outermost layers only, it is as cost-effective as it is eye-catching. ◀*

# PIGMENTS & ADDITIVES

## **BUSINESS TRENDS AND ACHIEVEMENTS IN 2008**

### ➤ **FALLING DEMAND IN FINAL QUARTER IMPACTS SALES**

- Inventory de-stocking and weakness in demand leading to lower sales volumes in the final quarter.
- Idle facility costs impact profitability.
- Demand for decorative paints and vehicle refinishing products remains strong.

### ➤ **IMPROVED MARGINS**

- EBIT profitability increases despite escalating raw material costs thanks to a stringent price-over-volume strategy and the successful implementation of price increases.
- Restructuring initiative and the successful implementation of the LeanSigma process improvement program reduced overhead costs by more than 30 percent. We have shut down our Coventry plant in the U.S. and ceased production at our Horsforth, U.K., site.

### ➤ **FOCUS ON GROWTH MARKETS**

- Our new customer-centric BU structure has helped to focus sales efforts and reduce non-value-added activities.
- Strong, profitable growth in the Specialties BU, especially in the flame retardants market segment.

### ➤ **CULTURAL CHANGE PROGRAM UNDERWAY**

- Implementation of a cultural change program emphasizing a solution-oriented, courageous attitude.

### ➤ **CHINESE JOINT VENTURE AGREED**

- Expansion of joint venture with Zhejiang Baihe Chemical Holding Group to invest in a new world-class plant for the manufacture of Quinacridone specialty organic pigments in China.

## **OUTLOOK**

### ➤ **SLOWDOWN IN DEMAND SET TO CONTINUE**

- Demand in Europe and North America drops but emerging markets continue to grow steadily, albeit at a slower pace than during the first six months of 2008.
- Slowing demand, especially in automotive and housing markets, will further focus activities on sustaining margins through the continued application of LeanSigma and SG&A cost reductions.

### ➤ **COST REDUCTION IS THE KEY TO SUCCESS**

- Successfully "right-sizing" the organization through restructuring, improved efficiency measures and the ability to search out high-value niche products will be the key to surviving the economic downturn.

*“A culture of accelerated change will ensure we meet our customers’ demands ahead of the competition and build a strong, profit-focused base for future innovation.”*

OKKE KOO, HEAD OF PA DIVISION



## PROFILE AND STRATEGY

### CORE COMPETENCIES

We offer a wide range of products for optimal color and performance solutions. Our high-performance pigments serve many industries including the automotive, architectural, cosmetics, packaging and printing trades. Our core additives business offers pioneering solutions to improve the heat, light and weather resistance of coatings, plastics and polyester fibers. Our portfolio also includes pigment preparations, special dyes, flame retardants, high-quality waxes and polymer additives. Our global production network creates customer value through combining cutting-edge products with specialty services such as individualized color matching.

### PRODUCTS AND SERVICES

Our products and services are organized under four international Business Units (BUs).

**Coatings:** Our Coatings BU offers a variety of architectural, automotive, coil, industrial, powder and wood solutions. High-value focus areas for the Division include: Easily dispersible pigments for improved paint manufacturing, Diketo-pyrrolo-pyrrole (DPP) pigments to create high-performance red hues and VOC-free pigment preparations, such as Colanyl 500.

**Plastics:** Our Plastics BU offers pigments, pigment preparations, synthetic dyes and waxes for resin manufacturers, masterbatchers, compounders and processors. Designed for heavy-duty performance, our technologies boast value-added ecological and innovative features. Key focus areas include colorants that stress compliance with safety regulations for use in sensitive applications, e.g. children’s toys. As of 2009, the Plastics BU will be integrated into the Specialties BU.

**Specialties:** Our application-oriented Specialties BU markets pigments, pigment preparations, special dyes, flame retardants and waxes for use in many everyday applications such as cosmetics and detergents, printed material, aluminum, electrical equipment & electronics, adhesives and agrochemicals. Current specialties include the non-halogenated flame retardant Exolit® and Triple-S organic color pigments for inkjet printing. In addition, our Lucidot® (nanoscale zeolites) serve as a platform for a range of new applications.

**Base Products:** Focusing on standard, less service-oriented products, our newly created Base Products BU mainly manufactures polymer additives (e.g. antioxidants, antistatic agents, processing and light stabilizers) and process colors for publication and packaging inks. As of 2009, the overall wax business will be integrated into the Base Products BU.

Employees

3 951

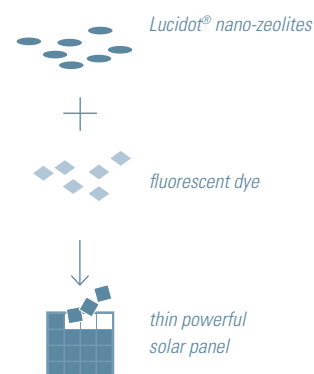
Sites

24

Countries

37

### Lucidot® appliance example



### STRATEGIC GOALS

In line with Clariant's overall drive to increase efficiency and profitability, we have implemented several strategic cost leadership initiatives over the past year.

- › **Continued focus on reducing costs:** The acceleration of our LeanSigma initiative and additional restructuring will drive further efficiencies throughout the Division and ensure it is "right-sized" for the markets in which we work.
- › **Focusing on high-profit business areas:** We are increasingly focused on our most profitable and high-growth markets, products and services such as coatings colorants and non-halogenated flame retardants, while simultaneously de-emphasizing more low-margin businesses. We will also develop added-value services such as our expertise in regulatory compliance (e.g. REACH).
- › **Looking ahead to in-licensing:** To further develop Clariant's cost leadership strategy, we are starting to explore high growth in-licensing deals with cutting-edge developers of technologies and services in line with our core competencies.

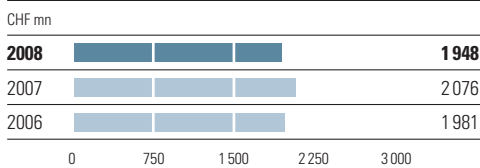
### FINANCIAL AND MARKET REVIEW

PA sales in local currency remained stable while sales in CHF declined 6 percent. Solid growth in the first nine months could not compensate for the dramatic demand decline from key customer industries such as automotive and plastics in the fourth quarter. Whereas the Division's Specialties BU could withstand the unfavorable demand development, sales in the Coatings and Plastics BUs declined significantly.

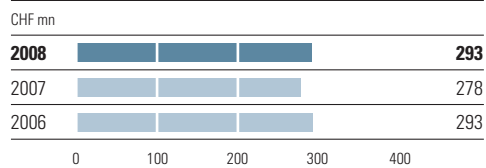
The Division's gross margin remained stable compared to the previous year, whereas the operating margin significantly increased. The negative impact of currency effects on EBIT were more than offset by the systematic implementation of the restructuring measures and the focus on cost leadership.

In order to streamline its portfolio, the Division sold its Netherlands-based affiliate Dick Peters B.V. to the German specialty chemicals group ALTANA. The transaction was worth EUR 18 million.

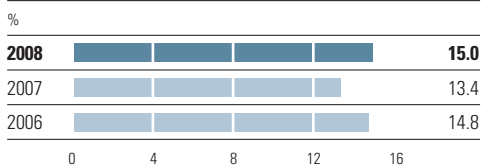
#### SALES



#### EBITDA<sup>1</sup>



#### EBITDA<sup>1</sup> MARGIN



<sup>1</sup> Before restructuring and disposals

## PIGMENTS & ADDITIVES NEWS

### **“Green carpets” for automobiles**



**Old car carpets make an uncomfortable fit with the environment because of their chemistry.** The water-based polymer dispersions used to coat and reinforce automotive carpets make them unrecyclable and they end their days parked-up in landfill sites. Clariant has a new way forward through the development of a “hotmelt” coating system, coupled with Clariant’s Licocene range of propylene-based polymers. Together, they are an environmentally-friendly alternative to traditional coatings and adhesives and mean that polypropylene carpets can now be 100 percent recycled. The “hotmelt” coating system also does not require water, thereby further reducing the impact on the environment. So for environmentally-conscious automotive industry suppliers who not only want cars to look like stars, but also want to go green, there are good reasons to get on board with Clariant. ◀

### **Sustainable Wins with LeanSigma**



**Since Clariant implemented its LeanSigma improvement initiative in March 2008, the Division has reduced costs and improved processes.** At the Höchst plant in Germany, LeanSigma helped to increase the production of Naphtolon, an important pigment production intermediate, by 10 percent. Huingue, France saw a 45 percent increase in production capacity for Novoperm® yellow pigments. The process improvement initiative also facilitated significant delivery time reductions (from 59 to 18 days) at Germany’s Gersthofen site. Within six months, PA managed to reap potential cost savings of approximately CHF 5 million as a result of LeanSigma projects. ◀

### **The Color of Saved Money**



**Dispersing pigments in solvent-based paints is a highly specialized technology.** It is time-consuming and requires expensive equipment. Clariant has turned this technology into an art form by developing a range of specialist ED-pigments (easily dispersible) that makes the job easier for customers and saves them time, energy and money. To complete the picture, Clariant now has a full range of nine products that cover the color spectrum from yellow to blue. ◀

# TEXTILE, LEATHER & PAPER CHEMICALS

## **BUSINESS TRENDS AND ACHIEVEMENTS IN 2008**

### ➤ **DEMAND WEAKNESS SPREADING AROUND THE GLOBE**

- Significant drop in demand especially in the textile and leather sectors in most markets.

### ➤ **"Low Cost FOCUS" STRATEGY DRIVES DOWN COSTS**

- The strategy has reduced complexity, overhead and production costs, increased prices, focused on profitable markets and segments and progressed with portfolio rationalization.

- SG&A costs reduced by CHF 70 million. Production cost savings of CHF 40 million.

### ➤ **PRODUCTION NETWORK RATIONALIZATION**

- Production follows the customer with a shift to emerging markets through the launch of a new emulsion plant in Turkey and additional capacities installed in Indonesia, China, Chile and Pakistan. Closure of sites and plants in the UK, France and Italy.

### ➤ **NEW TECHNICAL GLOBAL CENTERS OPENED**

- Guangzhou (China) for Archroma® textile color matching service.

- Launch of carpet facility in Louvain-la-Neuve (Belgium).

## **OUTLOOK**

### ➤ **DEMAND TO BE IMPACTED**

- Owing to the worldwide economic slowdown, demand within the textile, leather and paper industries will continue to suffer, particularly in the first half of 2009.

- The downturn is expected to lead to industry consolidation and/or restructuring. There will be a strong drive for further efficiency gains through portfolio rationalization and improved site networking.

### ➤ **RAW MATERIAL PRICES TO DECLINE**

- Having risen sharply in 2008, industry-wide raw material prices are likely to soften in 2009.

### ➤ **CONTINUED SHIFT OF PRODUCTION TO EMERGING MARKETS**

- Industrialized markets such as the E.U. and U.S. will see further migration of industries to emerging markets in Asia.



*“Despite the difficult climate, our employees’ commitment and drive to succeed will win through. Our vigorous cost-cutting efforts are already reaping rewards.”*

PETER BRANDENBERG, HEAD OF TLP DIVISION



## PROFILE AND STRATEGY

### CORE COMPETENCIES

Our Textile, Leather & Paper Chemicals Division (TLP) creates specialty chemicals and dyestuffs that add value through functionality and esthetics to the textile, leather and paper industries. We provide solutions to meet customers’ needs across the entire production chain. Our worldwide production network allows us to be close to our customers, enabling them to develop solutions that meet their specifications while complying with international quality standards and complex local legislative requirements.

### PRODUCTS AND SERVICES

Our products and services are organized under three Business Units (BUs). We offer service-driven solutions alongside our products.

**Textile:** Our Division’s largest BU, the Textile Business Unit, serves textile producers as well as retailers and brand owners with products and services for pre-treatment, sizing, fiber finishing, dyeing, and printing to finishing. Our global color service, Archroma®, provides solutions to manage color standards along the whole textile chain and significantly accelerates time to market. In order to respond to customers’ evolving needs, innovation is central to our work, particularly in the area of functional effects. New products introduced in 2008 include coldblack®, an innovative heat-wicking and UV-reflecting finish mainly used in outdoor sports apparel and our environmentally-friendly Advanced Denim concept featuring new Diresul® RDT dyes for creating special effects for denim.

**Leather:** Our Leather BU develops and markets chemicals to create specific effects and fulfill the performance requirements of specific leather products. We produce chemicals and dyes to process, treat and color leathers. New products and services introduced in 2008 include a superior range of automotive Aqualen® Top DP topcoats, the Pelcroma® computer color matching system and our environmentally-friendly tanning and re-tanning system for chrome-free leathers.

**Paper:** Our Paper BU is a market leader in colorants and optical whiteners for paper. We also develop solutions such as specialty chemicals to improve the strength of recycled paper. Products introduced in 2008 include a redesigned improved range of rheology modifiers: Cartacoat® RM, new Cartasol® dyes, Flexonyl®P pigments and Leucophor® S/STR optical brighteners, all featuring enhanced “eco-toxic” profiles and improved cost performance. We also developed a new generation of high reactivity crosslinkers, a true innovation in its application field, which will be launched in 2009.

### STRATEGIC GOALS

To become a textile, leather and paper industry leader, we are taking a variety of measures in 2009.

- › **Focusing the portfolio:** We will move away from low margin businesses by reducing our product range by 40 percent by 2010 and our Leather BU will focus on its 12 key markets. Our focus will be on more profitable segments. For example, our Paper BU will concentrate on valuable niche segments, such as process and coating chemicals. In the Textile BU, we will stress high value effects such as NanoSphere® and concentrate on growth markets in Asia and Latin America.

Employees

4 560

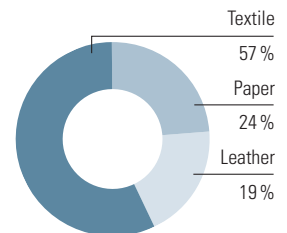
Sites

33

Countries

38

TLP BY BUSINESSES



## STRATEGIC GOALS (CONTINUED)

- › **Cost reduction across the Division:** We will turnaround or cut non-profitable plants, shift production closer to market needs and rationalize our production capacities. Continued implementation of our “Low Cost FOCUS” strategy using LeanSigma techniques will enable us to improve our cost position, streamline structures and improve our cost effectiveness.

## FINANCIAL AND MARKET REVIEW

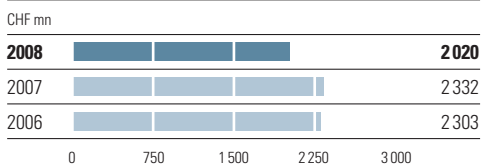
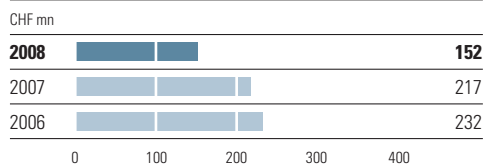
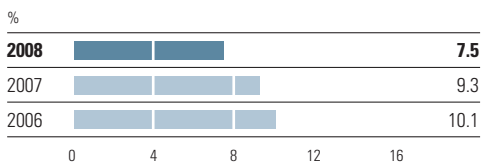
The economic slowdown in the second half of the year, and in particular during the final quarter, had a significant impact on the turnover and the overall profitability of TLP. Despite our achievements in cost reduction and pricing, our EBIT dropped from 6.2 percent in 2007 to 4.3 percent 2008 as demand fell away.

The Textile and Leather businesses were severely impacted by rapidly deteriorating market conditions. The harsh economic climate in the U.S. spilled over to Europe and had a negative effect on global textile and leather production. Our **Textile** BU suffered from a double-digit drop in volume throughout much of Europe, North America and many key Asian markets such as China. Even Latin America, which had strong sales for the first three quarters, was not able to show sales growth for the full year. The negative effects on profitability were slowed thanks to strong price increases and restructuring measures.

Weaker volumes in our **Leather** BU were seen mainly in the automotive and upholstery sectors, where demand dropped significantly in the second half of the year, in part due to less leather being used in car interiors and furniture. The footwear sector was not so seriously affected. The Americas and Asia were worst affected in terms of sales decline.

Although our **Paper** BU suffered volume losses during the third quarter, it developed satisfactorily thanks to successfully managing prices to counter the trend of increasing raw material costs for optical brighteners. Local currency sales growth was strong in Latin America, while Europe and Asia remained virtually unchanged. China weakened substantially but strong sales in Indonesia and India balanced the shortfall.

## SALES

EBITDA<sup>1</sup>EBITDA<sup>1</sup> MARGIN

<sup>1</sup> Before restructuring and disposals

## TEXTILE, LEATHER & PAPER CHEMICALS NEWS

### *In-jean-ious*



**In September, Clariant's Textile BU unveiled Advanced Denim, an environmentally-friendly denim dyeing concept.** Advanced Denim creates unusual shades, extra softness, wash-down effects and smart finishes. It boasts biodegradable reducing agents and innovative application procedures that help save water, time and energy. Advanced Denim also offers fast-to-repetitive washing, good rubbing fastness and an easy application process. ◀



### *Precision Leather*

**Designed specifically for the leather industry, Clariant's hi-tech approach to color selection, Pelcroma<sup>®</sup>, provides fast, accurate and professional color matching to help turn customers' color concepts into reality.** Pelcroma offers automotive, sports shoe, fashion and other customers the ability to formulate and accurately communicate color through their supply chain, thereby significantly reducing costs and time to market. Used in conjunction with Clariant's high quality pigments, Neosar<sup>®</sup> 2000 and PPE<sup>®</sup>, Clariant's breakthrough technologies ensure accurate, true and brilliant colors. ◀



### *"Best Supplier of the Year" Award for Paper*

**Clariant's Paper BU has been providing Ahlstrom, a global manufacturer of specialty papers and non-woven materials, with a tailored program of support for a number of years.** Ahlstrom acknowledged this outstanding cooperation by recognizing Clariant as its "Best Supplier of the Year" for 2007. The Award, presented at a ceremony in Paris in March 2008, named Clariant as Ahlstrom's most appreciated supplier in 2007 in the chemicals sector, repeating a 2006 award, as well as best supplier overall. This successful collaboration illustrates Clariant's longstanding ability to develop reliable and committed partnerships. ◀

# FUNCTIONAL CHEMICALS

## BUSINESS TRENDS AND ACHIEVEMENTS IN 2008

### ➤ ROBUST DEMAND IN MOST SECTORS

- We achieved increased EBIT from 7.1 percent in 2007 to 8.8 percent due to margin improvements from a successful pricing policy and portfolio focus.
- Sales expansion was achieved in the strategically important areas of North America and Asia.
- In Asia, we delivered double-digit growth. Overall, sales were in line with targets.
- Record season for de-icing business.
- Some weakness in industrial sectors, e.g. construction, towards the end of the year.

### ➤ INVESTING IN PRODUCTION IN KEY GROWTH AREAS

- The new multi-purpose plant at Zhenjiang, China, will serve core segments such as personal care, paints and coatings, and metal working in high-growth Asian markets when it comes on stream in 2009.
- The expansion of the multi-purpose plant in the U.S. is serving the high-growth aviation and personal care segments.
- Expanded capacity in Japan created to serve the personal care and metal working sectors.

### ➤ DEVELOPMENT IN SERVICE-DRIVEN BUSINESSES

- We opened a new Global Oil Services Center in Houston, Texas, closer to our customers.
- Our Chemical Management Solutions BU expanded further into deep-water oil markets, primarily in Brazil and the Gulf of Mexico, and increased market share in North and South America.
- Our Personal Care business increased capacity in expanding markets and launched a new range of "green" products.

## OUTLOOK

### ➤ ECONOMIC DOWNTURN TO IMPACT CERTAIN INDUSTRY SEGMENTS

- Some FUN markets such as construction, automotive and metal working will be impacted. However, areas not directly affected by consumer spending power, such as agrochemicals and oil services, will be more insulated from the downturn.

### ➤ RAW MATERIAL PRICES ARE EXPECTED TO SOFTEN IN MOST AREAS

- Cost cutting through performance improvement initiatives will accelerate in 2009 to maintain margins.

### ➤ IMPROVING LIFESTYLES DRIVE DEMAND

- The underlying dynamic of improving lifestyles, especially in developing countries, is driving greater demand for food, beauty and consumer solutions in the key FUN markets of industrial and home care, personal care, and crop protection. Meanwhile, economic development and increased mobility in emerging markets is expected to increase overall demand for engineering and aviation solutions.

*“Continuous improvement is our business model, enabling us to grow markets ahead of our competitors in the coming months.”*

SIEGFRIED FISCHER, HEAD OF FUN DIVISION



## PROFILE AND STRATEGY

### CORE COMPETENCIES

Focusing on products and solutions for the oil and gas industry and key ingredients for the home care and cosmetics sector, our portfolio is based on surfactants, polymers and active ingredients. A wide variety of global industries such as the detergent, cosmetics, oil, gas, construction, agriculture, metal working, mining, paint and aviation sectors employ our high-tech functional chemicals in their products. We deliver our application know-how through our service-oriented organization, combining our chemistry with global marketplace expertise to improve our customers' processes and products. Our global reach, regulatory compliance knowledge and broad portfolio help us to retain a broad customer base in today's highly competitive marketplace.

### PRODUCTS AND SERVICES

Our products and services are organized under two global Business Units.

**Chemical Management Solutions:** Provides technology and services to the oil and gas, refinery and mining industries. Our solutions help customers to resolve complex process challenges encountered during the production and transportation of crude oil and gas as well as finished products such as diesel and heating oil and various mineral ores.

**Industrial & Consumer Care:** Provides key ingredients for the personal care, industrial and home care, crop protection, paints and coatings, construction chemicals, metal working and aviation sectors. We combine products and formulation expertise across these fields to deliver solutions with compelling cost-performance ratios and environmental benefits to our customers.

**Other FUN Segments:** Our other FUN business segments, including Detergents & Intermediates and Ethylene Oxide & Derivatives, Silicones and Nutrition, typically operate in cost-driven environments. To help reduce costs and organizational complexity, as well as ensure these businesses are closer to the customer, we manage these parts of the portfolio regionally.

### STRATEGIC GOALS

In line with Clariant's drive to increase efficiency and profitability, we are implementing several strategic initiatives in 2009.

- › **Chemical Management Solutions focus:** We plan to develop market share in deep-water and heavy oil production in high-growth areas such as the Americas and West Africa, while scrutinizing our supply chain costs to stay competitive.
- › **Driving profitability improvement efforts:** To address the margin gap, we are focusing on short-term margin improvements and mid-term portfolio streamlining to stress high-profit specialties e.g. personal care, oil and mining.
- › **Reduced emphasis on low-margin segments:** We are shedding low margin businesses to increase the profitability of our portfolio. Cost-cutting activities will accelerate in 2009 to further reduce overheads.

Employees

3 851

Sites

14

Countries

45

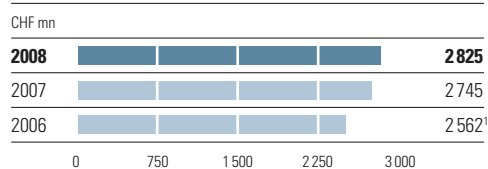
## FINANCIAL AND MARKET REVIEW

In 2008, demand remained robust across all of our businesses. Price increases averaging of 11 percent were achieved across all regions and fully compensated for escalating raw material costs. These increases, combined with higher volumes in Asia, resulted in improved turnover for the Division as a whole. Efficiency measures, a focus on inventories and a portfolio shift led to substantial improvements in operating margins with the Division's EBIT increasing from 7.1 percent in 2007 to 8.8 percent in 2008.

Chemical Management Solutions saw double-digit growth across all regions boosted by record sales in Clariant Oil Services. We successfully defended strong market positions in Europe, Asia and Latin America and we continue to grow in North America. Investments in Russia, the U.S. and China will continue to drive growth.

Industrial & Consumer Care saw strong demand. Asia outperformed other regions with double-digit growth. Personal Care stands out with above-average sales from greater volumes and higher prices. Investments in new production capacity and technical support will stimulate future growth.

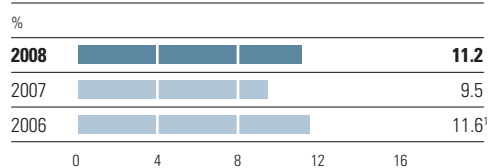
### SALES



### EBITDA<sup>2</sup>



### EBITDA<sup>2</sup> MARGIN



<sup>1</sup> Restated. 2006 figures include continuing business of the former Life Sciences Division.

<sup>2</sup> Before restructuring and disposals

## FUNCTIONAL CHEMICALS NEWS

### Flying High



**For four decades, Clariant has helped ensure the safe take-off of aircraft in snow, freezing rain and frost.** The company's de-icing products are sold around the world, keeping runways open and aircraft flying. Over the past five years, FUN has supplied Toronto Airport with the granular de-icer, Safeway®SF. The Greater Toronto Airports Authority (GTAA) is impressed with Clariant's solution and excellent customer care. "Whenever there's a threat of snow or freezing rain, FUN's supply chain shifts into high gear. Airfield maintenance has come to rely on the prompt delivery of Safeway," says GTAA Airfield Maintenance Senior Manager Doug Dyball. "It's a pleasure working with a company that understands the true meaning of customer service." ◀

### Greenhouse Gases Be Gone



**Clariant's commitment to environmental stewardship extends to supporting the reduction of harmful greenhouse gases.** Developed by FUN, the novel absorption liquid Genosorb® filters hazardous substances from natural gas in biogas purification plants. The filtering process reduces greenhouse gas emissions, which is an important contributor to climate protection. ◀

### Persil Power



**Clariant has helped washing powder manufacturer Henkel to produce its "Best Ever Persil."** Thanks to the innovative, performance-boosting additive, TexCare® SRA 300, Henkel provides consumers with a highly-efficient washing powder which works at low temperatures, saving both water and energy consumption. The additive also enhances the stain resistance of fabrics. Clariant received Henkel's "Best Innovation Contributor 2007" prize for its work on TexCare SRA 300. ◀

# PEOPLE AND CULTURE

Over the past decade, Clariant has become a truly global organization serving customers in 150 countries across five continents. We could not have achieved this without the talent, dedication and entrepreneurial spirit of our employees. We attract the industry's top talent and strive to keep our employees engaged by providing them with ample opportunities for growth, a challenging but flexible working environment and appealing benefits packages.

## PERFORMANCE ORIENTATION

People are at the heart of our corporate strategy. Achieving our goals requires a high-performance culture throughout our company. This means that all employees are clear about their contribution to Clariant's overall success and are motivated to meet ambitious targets. The cornerstones of our performance-oriented culture are:

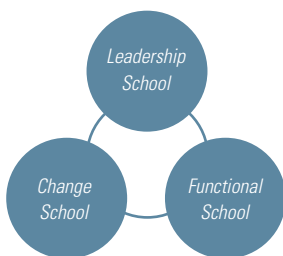
- › **Talent Management:** We provide our talented people with an outstanding opportunity to further their capabilities. Fast-track career development, succession planning, the Clariant Academy training school, international placements and other resources are available for our most talented people to develop their skills and knowledge.
- › **Performance Management:** This enables our people to link their targets to the company's strategic objectives. Regular performance dialogues between employees and managers are used to agree individual responsibilities and objectives, create development plans and discuss performance indicators as well as develop behavioral aspects, such as a culture of personal accountability and entrepreneurship.
- › **Continuous Improvement:** The process identifies where improvement is needed in the organization and the resources required to deliver it. Clear objective setting, linked to performance management and training based on LeanSigma concepts, are all components of continuous improvement.
- › **Training:** We prioritize the development of our employees' managerial and technical skills through the Clariant Academy, external courses and workplace learning, to ensure our people are equipped with the skills they need to meet the challenges of working in a demanding industry.

## CLARIANT ACADEMY

Launched in 2006, the Academy plays a key role in fostering a sustainable culture of excellence, capability building, leadership development and best-practice sharing. The Academy consists of three "schools" with courses and workshops aimed at developing skills for employees at different levels:

- › **Leadership School** – develops strategic and "soft" skills such as effective communication for current and future leaders.
- › **Change School** – implements strategic initiatives and provides an infrastructure for change management and continuous improvement. LeanSigma is an example of these change processes.
- › **Functional School** – develops know-how and behaviors to reach operational excellence in Clariant's core processes, such as Value-Based Selling.

We continue to introduce new training modules to the Clariant Academy in areas such as Finance and Procurement.





## CULTURAL DIVERSITY

As we move further into emerging markets to be nearer to our international customer base, we foster a collaborative, culturally-sensitive worldwide production network. Our ability to succeed on a global scale hinges on nurturing a blend of local competence and international business experience.

We are a cosmopolitan family with employees drawn from more than 90 nations. We aim to provide our managers with international experience to better equip them for leadership roles. High-level managers are required to work in at least two different regions in order to progress.

Alongside our commitment to diversity is a rigorous adherence to the Clariant Code of Conduct (see our website [www.clariant.com](http://www.clariant.com) for full details). All employees are trained in the Code, which outlines the company's strict non-discrimination policies.

## FAIRNESS AND COOPERATION

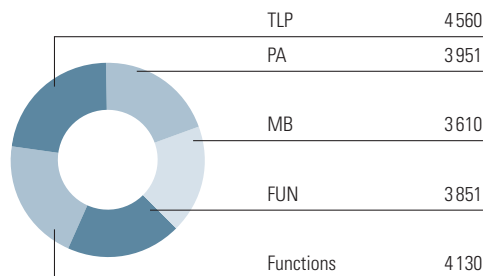
A culture of fairness extends throughout all aspects of our global employee relations. Clariant is fully compliant with the International Labour Organization and constantly monitors its locations in this regard. This includes full respect for regulations concerning freedom of association.

We respect or surpass local minimum wage regulations. Depending on the competitive situation in each location, entry level wages are often above minimum wage levels. As a result, we are able to attract the strongest candidates and retain a loyal workforce. We also adhere to all local rules relating to the treatment of temporary and part-time employees.

Approximately 50 percent of our employees are covered by collective bargaining agreements and we work closely with employee representatives and staff when operational changes arise (e.g. plant closures).

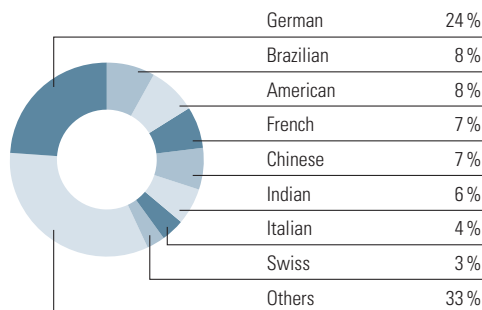
### EMPLOYEES BY DIVISION/FUNCTION

Total 2008: 20 102



### EMPLOYEES BY NATIONALITY

Clariant employs people from 91 different nationalities. This is how the numbers break down:



# CORPORATE RESPONSIBILITY



*The GRI checked our adherence to its sustainability reporting guidelines and confirmed their successful application at C-Level throughout this report together with its GRI Web-Addendum, published on the internet.*

Responsible corporate management plays a key role in helping us to steer our company through challenging times. Our ability to treat customers, employees, neighbors and the environment in a responsible fashion is not only ethically correct, but also strengthens our partnerships with those stakeholders upon whom our success as a company ultimately depends. In order to survive in the current economic climate and thrive in the years to come, we emphasize solutions that combine short-term cost savings with long-term competitive positioning, such as cleaner processes and products that reduce procurement or disposal costs.

To inform our shareholders and other stakeholders about our responsible corporate management efforts in a transparent fashion, we follow the guidelines of the Global Reporting Initiative (GRI).

## ENVIRONMENTAL PROTECTION AND PRODUCT SAFETY

We are proactively committed to taking into consideration environmental protection and safety in all our activities. Each of our worldwide facilities is required to adhere strictly to the principles of the cleanliness and safety code outlined by the Group's Environment, Safety & Health Department (ESH). We operate a global incident reporting and emergency management system, and have launched a global initiative to reduce accidents by changes in mindset and behavior.

Thanks to our health and safety programs, we have been awarded the global ISO 14001-2004 and OHSAS ISO 18001-1999 certificates. Our ESH policy fulfills the goals of the Business Charter for Sustainable Development defined by the International Chamber of Commerce and we strive to go beyond compliance with the rigorous implementation of internal regulations and national laws. The table overleaf illustrates the results of our environmental protection efforts from 2003 to 2007. Corresponding data for 2008 will be published on our website in April 2009, to allow time to gather and validate data at our production sites across 40 countries.

Our Product Safety Department coordinates product safety activities within each division and across regions. It leads Clariant's compliance management efforts with regard to European REACH legislation, which aims to streamline and improve the legislative framework on chemicals within the European Union (E.U.). We strive to be a leader on REACH compliance, which is becoming increasingly important to our customers around the world. We provide customers with a value-added service by ensuring full adherence to the REACH regulation. Our customers gain confidence from our outstanding global legislative expertise.

The timeline for REACH implementation depends on the quantity and properties of substances manufactured and imported. But those manufacturers and importers that pre-register substances already in existence on the E.U. market (so-called phase-in substances) benefit from transitional arrangements that allow their registration at a later stage. And they can save costs and time delays by eliminating redundant tests via data sharing with other registrants. Overall, Clariant pre-registered a large number of substances in 2008.

### Workplace Accidents

↓ 30%

*Since its launch in 2006, the global initiative AvoidingAccidents@Clariant has reduced workplace accidents by nearly 30 percent.*

*We have been successful in achieving our ambitious goals for the REACH pre-registration period, which closed on December 1, 2008.*

*“Sustainability helps us reduce costs, manage challenging times, and position ourselves for a successful future.”* HARIOLF KOTTMANN, CEO

## INTEGRITY AND COMMUNITY

The Clariant Code of Conduct, which is available on our website, covers responsible behavior, protecting the reputation of the company, and reducing risks for our shareholders. It requires us, as well as each 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. In the year under review, no instances were registered involving non-compliance with rules and regulations concerning corruption, unfair competition, or discrimination.

In addition to securing compliance with guidelines for ethical business behavior, we place high value on acting as a responsible and supportive corporate citizen, wherever we do business. Our employees undertake community projects around the world on a voluntary basis. In addition, we make donations to charitable causes that fall in line with our core business.

### SELECTED ENVIRONMENTAL, SAFETY AND HEALTH PERFORMANCE INDICATORS:

Five-Year Trend 2003–2007	Unit	2007	2006	2005	2004	2003
<b>Material, energy and water consumption</b>						
Materials used to manufacture products	1 000 tons	2 318	2 401	2 480	2 642	2 630
Purchased electricity consumption	1 000 TJ	3.97	4.27	4.55	4.78	4.96
Natural gas consumption	1 000 TJ	4.81	6.25	6.94	7.26	7.91
Fuel oil consumption	1 000 GJ	803	1 024	1 206	1 292	1 428
Water consumption, incl. process water etc.	million m <sup>3</sup>	103	112	114	121	136
<b>Discharge to air and water; waste</b>						
Direct carbon dioxide emissions	1 000 tons	507	596	642	672	733
Direct global warming potential (carbon equivalent – Scope 1)	1 000 tons	708	898	1 032	1 070	1 086
Indirect global warming potential (carbon equivalent – Scope 2)	1 000 tons <sup>1</sup>	647				
Sulphur dioxide	tons	538	611	685	765	804
Oxides of nitrogen	tons	425	515	839	1 101	1 110
Total effluent discharge	million m <sup>3</sup>	27.0	29.7	31.4	33.9	35.2
Organic substances in effluents (chemical oxygen demand)	1 000 tons O <sub>2</sub>	6.45	7.04	7.81	7.98	8.12
Generated non-hazardous waste	1 000 tons	123	135	128	135	148
Generated hazardous waste	1 000 tons	111	144	175	170	173
<b>Occupational accidents</b>						
Frequency – lost time accident rate	<sup>2</sup>	0.92	1.05	1.13	1.27	1.20
Severity – lost workday rate	<sup>3</sup>	15.9	19.6	17.3	20.8	18.3

Fuel consumption\*

↓20%

Direct carbon dioxide emissions\*

↓15%

Hazardous waste\*

↓20%

<sup>1</sup> From purchased energy (electricity, steam, etc.). Data collection started in 2007.

<sup>2</sup> Number of work-related accidents with minimum one lost workday per 200 000 working hours.

<sup>3</sup> Number of lost workdays resulting from work-related accidents per 200 000 working hours.

\* since 2006

## RISK MANAGEMENT

### ENTERPRISE RISK MANAGEMENT, PROCESS REVIEW AND REVISION

Our approach to Enterprise Risk Management is designed to clarify risk levels and encourage entrepreneurial behavior throughout the Group. The process considers opportunities and threats to our short- and medium-term objectives as defined by the Board of Directors (BoD). Our Enterprise Risk Management objectives are to: ensure the coordination and development of Risk Management activities through all decision making levels within Clariant; ensure the communication of all significant risks to the Executive Committee (EC), the CEO and BoD; communicate the process to the BoD via the Audit Committee (AC); inform, train and motivate staff.

*The revised policy is based upon the risk management standard of the Institute of Risk Management (IRM) but benchmarked to the Enterprise Risk Management – Integrated Framework of The Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

We extensively reviewed, revised and expanded our system and processes in 2008 by: reviewing and revising the Risk Management Policy; issuing detailed Guidelines and a Glossary of Terms; introducing a Risk Management tool to support risk assessments, quantification, assessment of counter measures, allocation of responsibilities and the management reporting structure. Managers worldwide can view the Policy and Guidelines online. The results of our risk assessments and countermeasures are available to selected executives. The full data is available to certain senior executives to consolidate and assess the risk exposure for the CEO, EC and BoD.

### RISK ASSESSMENTS

*The risk assessment is repeated annually with quarterly updates and interim reporting as necessary. The process has an initial and update cycle designed to deliver timely results for the preparation of the Annual Report.*

Risk assessments are linked to our overall short- and medium-term objectives and the objectives of the individual making the assessment. These assessments are scored according to predetermined categories including likelihood, financial impact, reputation impact and operational impact. The financial impact criteria are linked to specific Clariant targets and issues. The Risk Management Steering Committee (RSMC) reviews the assessment results for relevance, consistency and accuracy. Each risk assessment reports on: threat or opportunity, cause, impact, treatment and control measures, level of confidence in the controls, acceptability of identified risks, potential improvements, risk improvement plans and timescale.

### ENVIRONMENTAL, PRODUCT, FINANCIAL RISKS, AND LITIGATION

We centrally analyze relevant parameters from all manufacturing sites to minimize potential environmental, safety and health risks. We protect ourselves against risks arising from public and product liability by concluding insurance policies and booking provisions. We limit potential inherited liabilities arising from acquisitions or disposals through contractual agreements whenever possible. We monitor financial risks through a comprehensive analysis and evaluation system. The financial instruments hedge payment stream imbalances (transactions risks) between various currencies on a selective basis via options, spot transactions or forward transactions. We address the exposure of assets and liabilities (translation risks) by adopting a business behavior geared towards "natural" hedging. We manage the risks associated with interest rate changes primarily by maintaining the right balance between fixed and variable rates and credit facility maturity. We make appropriate provisions for non-insured litigation including tax law, patent law, product liability, competition and environmental protection.

### INFORMATION TECHNOLOGY RISKS

We operate business-critical software in a central computer center with two physically separated server parks. The system's parallel architecture overcomes failures and breakdowns. Reliable and permanently updated tools guard against virus attacks. We regularly practice emergency drills.

## CORPORATE RESPONSIBILITY NEWS

### Indian Safety Lab's Seal of Approval



**Clariant's Corporate Product Safety (CPS) Laboratory at Kolshet, India, has received globally-recognized accreditation for its chemical testing work.** The CPS laboratory, operated by Clariant's Product Safety Department, gained the prestigious ISO 17025 Certificate of Accreditation from the Indian Government. It comes just two years after the laboratory was opened, the first of its kind in India, and is seen as a major endorsement of the quality of the testing work performed at this world-class facility. The laboratory performs tests on samples from products manufactured by Clariant affiliates worldwide. It ensures that the sampled products comply with the company's own stringent guidelines and regulatory legislation such as REACH. ◀



### Sustainable chemistry solutions

**We carefully consider environmental, safety and health impacts of our activities at all life cycle stages from the development of product concepts to disposal and recycling.** Recent projects include: Black Magic cotton bleaching process which enables our customers to halve the usual 17 tons of water used when bleaching 1 ton of fabric and also to reduce energy expenditure; Triple-S pigments: allowing cheaper and more environmentally-compatible printing due to their improved size, shape, and surface characteristics; TexCare SRA: this low-temperature laundry additive allows its users to make remarkable savings in water and electrical energy; Green Glamour: a new line of visually exciting colors and effects for containers made with high levels of recycled polyolefin resin. ◀



### Perfect Power for Pakistan

**To provide Clariant's production facility at Jamshoro, Pakistan, with a reliable electricity supply and reduce its reliance on costly standby diesel generators, Clariant's "Energy 2010" team has installed an energy-efficient 1MW combined heat and power (CHP) co-generation gas engine to generate electricity, steam and hot water in 2008.** This leads to estimated annual savings of 42400 GJ of thermal energy and 3100 tons CO<sub>2</sub> emissions. "Clariant Energy 2010" is a company-wide initiative which aims to cut energy use by 10 to 15 percent by 2010 (based on 2005 figures). This would deliver an annual cost reduction of CHF 30 million and reduce carbon dioxide emissions by 100 to 130 million tons per year. ◀

# CORPORATE GOVERNANCE

## PRINCIPLES OF CORPORATE GOVERNANCE

In defining the management structure, organization and processes of the Clariant Group, the corporate governance principles aim to provide stakeholder value and transparency to promote sustainable long-term success. The Group is committed to the highest international standards of Corporate Governance and follows the rules set out in the Swiss Code of Best Practice for Corporate Governance and the SIX Swiss Exchange. The principles and regulations on corporate governance are described in the Swiss Code of Obligations, the Articles of Association of Clariant Ltd, 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 as the need arises.

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](http://www.governance.clariant.com).

## GROUP STRUCTURE AND SHAREHOLDERS

### GROUP STRUCTURE

The registered domicile of Clariant Ltd is Rothausstrasse 61, CH-4132 Muttenz, Switzerland.

The company's business operations are conducted through Clariant Group companies. Clariant Ltd, a holding company organized under Swiss law, directly or indirectly owns all Clariant Group companies worldwide. Except as described below, these companies' shares are not publicly traded. The most important Clariant subsidiaries are listed in Note 36 of the "Notes to the consolidated financial statements of the Clariant Group" (pages 114 and 115).

The Group conducts its business through four Divisions: Textile, Leather & Paper Chemicals; Pigments & Additives; Functional Chemicals; and Masterbatches.

Clariant owns 63.4 percent of the publicly traded companies Clariant Chemicals (India) Ltd, listed on the Bombay Stock Exchange, ISIN no. INE492A01029, symbol CLARICHEM, and on the National Stock Exchange of India, symbol CLNINDIA, and 75 percent of Clariant (Pakistan) Ltd, listed on the Karachi Stock Exchange, ISIN no. PK007670101.

### SIGNIFICANT SHAREHOLDINGS OF THREE PERCENT OR MORE OF TOTAL SHARE CAPITAL

As at December 31, 2008, Clariant has 30 625 registered shareholders. Bestinver Gestión S.A., Madrid held a participation of 4.97 percent of the share capital at December 31, 2008 (December 31, 2007: 7.56 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

### CROSS-SHAREHOLDINGS

There are no cross-shareholdings.

## CAPITAL STRUCTURE

### CAPITAL

As at December 31, 2008, the share capital of Clariant Ltd is CHF 920 640 000 fully paid-in and divided into 230 160 000 registered shares, each with a nominal value of CHF 4.00. Clariant shares have been listed on the SIX Swiss Exchange since 1995 (symbol CLN, ISIN no. CH0012142631). Clariant Ltd does not issue non-voting equity securities (Genussscheine).

### CONDITIONAL CAPITAL

The company's share capital may be increased by a maximum of CHF 32 000 000 by issue of a corresponding maximum of 8 000 000 registered shares with a nominal value of CHF 4.00 each. These must be paid up in cash, by the exercise of conversion or warrant rights granted to their holders in connection with bonds of the company or one of its subsidiaries. The details are set out in Article 5b of the Articles of Association.



Jürg Witmer (Chairman)



Rudolf Wehrli (Vice-Chairman)

#### CHANGES IN CAPITAL

Over the past three to four years, the company reduced its nominal value per share. Otherwise, the share capital remained unchanged. A table with additional information on changes to the share capital of Clariant Ltd in 2007 and 2008 can be found on page 80 (Note 14) of this Annual Report. The respective information details for 2006 and 2007 can be found on page 115 (Note 13) of the 2007 Annual Report.

#### TRANSFERABILITY OF SHARES

Transfer of registered shares requires the approval of the Board of Directors who may delegate this function. Approval is granted if the acquirer fulfills the formalities laid down in Article 5 of the Articles of Association.

#### NOMINEE REGISTRATIONS AND VOTING RIGHTS

Each registered share entitles the holder to one vote at General Shareholders' Meetings. Voting rights at Clariant are limited to 10 percent of the share capital in accordance with Article 12, paragraph 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 percent.

#### CONVERTIBLE BONDS AND OPTIONS

There are no outstanding convertible bonds. In the past, options have been issued on registered shares as part of the employee participation scheme. Details of the option programs can be found on page 109 (Note 31).

### THE BOARD OF DIRECTORS

The Board of Directors of Clariant Ltd comprises at least six and no more than ten members. At the 13<sup>th</sup> Annual General Meeting, Hariolf Kottmann, German citizen, Dominik Koechlin, Swiss citizen, and Carlo G. Soave, British citizen, were elected as new members of the Board of Directors for a three-year term of office.

#### MEMBERS OF THE BOARD OF DIRECTORS

##### **Jürg Witmer, Swiss citizen**

Chairman

Jürg Witmer studied political science at Geneva University's Institut de Hautes Etudes Internationales 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 of Roche Far East, later becoming General Manager. 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. Since 2008 he has been Chairman of Clariant Ltd.

##### **Rudolf Wehrli, Swiss citizen**

Vice-Chairman

Following studies at the Universities of Zurich and Basel where he earned doctorates in theology, philosophy, and German literature, Rudolf Wehrli began his career in 1979 at McKinsey & Co. In 1984, he joined the Schweizerische Kreditanstalt (now Credit Suisse) as member of the Senior Management. In 1986 he became Marketing Manager and member of the Executive Committee for the Silent Gliss Group. Five years later, he took over the management of the Group's German subsidiary. In 1995, he transferred to the Gurit-Heberlein-Group as a member of the Executive Committee and was promoted to Chief Operating Officer in 1998 and Chief Executive Officer in 2000. He remained in this position until the company was split up in 2006. Since 2008 he has been Vice-Chairman of Clariant Ltd.



Hariolf Kottmann



Peter Chen



Peter R. Isler



Klaus Jenny

### **Hariolf Kottmann, German citizen**

Chief Executive Officer (CEO)

Hariolf Kottmann earned his PhD in organic chemistry at the University of Stuttgart in 1984. In 1985, he launched his career at the former Hoechst AG in Frankfurt where he held several key management positions across the company's chemical divisions and functions. In 1996, he was appointed deputy head of the Basic Chemicals Division at Hoechst AG and took responsibility for the Inorganic Chemicals BU. In 1998, he joined Celanese Ltd in New Jersey (U.S.) as a member of the Executive Committee and head of the organic chemicals BU. In April 2001, he was appointed as a member of the Executive Committee of SGL Carbon AG where he was responsible for the Advanced Materials Division and the Eastern Europe and Asia regions until September 30, 2008. He was also in charge of the SGL Excellence, Technology and Innovation corporate functions. He became CEO of Clariant on October 1, 2008.

### **Prof. Peter Chen, U.S. citizen**

Peter Chen studied chemistry at the University of Chicago and in 1987 received a doctorate from Yale University in New Haven, Connecticut. He then served as an assistant professor (1988 to 1991) and as an associate professor (1991 to 1994) at Harvard University in Cambridge, Massachusetts. Since September 1994, he has been a full Professor of Physical-Organic Chemistry at ETH Zurich. He is currently Vice President of Research at the ETH Zurich.

### **Peter R. Isler, Swiss citizen**

Peter Isler studied law at the University of Zurich and 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 AG. 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, 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 Swiss operations. As a member of the Group Executive Board, he served as Chairman of the Executive Board of the Credit Suisse Private Banking BU. Klaus Jenny has held a number of directorships since leaving Credit Suisse.

### **Dominik Koechlin, Swiss citizen**

Dominik Koechlin earned his doctorate in law from the University of Berne and holds an MBA from INSEAD, Fontainebleau, France. Dominik Koechlin started his career in 1986 as a financial analyst at Bank Sarasin. In 1990 he founded Ellipson, a management consultancy. From 1996 – 2000 he was a member of the Executive Committee of Telecom PTT, later Swisscom, where he was responsible for corporate strategy and the operational international participations. Since 2001 he has served as board member of the listed companies EGL AG and Swissmetal AG as well as on the board of several privately held companies. He is a member of the board of the University of Basel.

### **Carlo G. Soave, British citizen**

Carlo G. Soave studied languages and economics at Heriot-Watt University, Edinburgh, Scotland. He launched his career in 1982 at Oerlikon-Bührle, Switzerland, moving to Procter & Gamble in 1984. There he held various senior management positions including Vice President of Global Purchasing for the Fabric and Home Care division. In 2004 he founded Soave & Associates consulting company, based in Brussels, Belgium. In 2005 he was appointed CEO of Albis Group, a nonwoven fabrics producer based in Italy.

## OTHER ACTIVITIES AND FUNCTIONS

### **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.





Dominik Koechlin



Carlo G. Soave

### Rudolf Wehrli

Board of Directors/supervisory mandates: Berner Kantonalbank, Precious Woods AG, Kambly AG, BioMed Credit AG and Rheinische Kunststoff-Werke.

Activities on behalf of companies and representative functions: President of the Schweizerische Gesellschaft für Chemische Industrie until June 2008, the Swiss chemical and pharmaceutical industry umbrella organization; member of the Executive Committee of Economiesuisse; Board of Trustees of Avenir Suisse.

### 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.

### Dominik Koechlin

Board of Directors/supervisory mandates: Board of trustees of LGT, member of the board of directors of EGL AG, Swissmetal Holding AG, and several non-listed companies.

Activities on behalf of companies and representative functions: None.

### Hariolf Kottmann

Board of Directors/supervisory mandates: Plansee AG, Deutsche Beteiligungs AG.

Activities on behalf of companies and representative functions: None.

### Carlo G. Soave

Board of Directors/supervisory mandates: CEO of Albis Group and Amantea LLC, USA.

Activities on behalf of companies and representative functions: None.

### CROSS-INVOLVEMENT

There are no cross-involvements.

### 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 upper age limit is 70 years.

<b>Board of Directors</b>	<i>Year of birth</i>	<i>First elected</i>	<i>Elected until</i>
Peter R. Isler	1946	2004	2011
Klaus Jenny	1942	2005	2009
Peter Chen	1960	2006	2010
Rudolf Wehrli	1949	2007	2011
Jürg Witmer	1948	2007	2011
Hariolf Kottmann	1955	2008	2011
Dominik Koechlin	1959	2008	2011
Carlo G. Soave	1960	2008	2011

### INTERNAL ORGANIZATIONAL STRUCTURE

#### THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors 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 members of the Board of Directors constitute the following Committees:

- › Chairman's Committee
- › Compensation Committee
- › Audit Committee
- › Technology and Innovation Committee

## BOARD OF DIRECTORS – COMMITTEE RESPONSIBILITIES

Director	Chairman's Committee	Audit Committee	Compensation Committee	Technology and Innovation Committee
Jürg Witmer	■		■	
Rudolf Wehrli	■		■	
Peter Chen				■
Peter R. Isler		■		
Klaus Jenny	■	■	■	
Dominik Koechlin		■		
Hariolf Kottmann				■
Carlo G. Soave				■

■ Chairman  
■ Member

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 CEO, CFO and other members of the Executive Committee and/or other employees and third parties regularly attend the meetings of the Board of Directors for the purpose of reporting or imparting information. Each committee has a written charter outlining its duties and responsibilities. The committees' charters are published on Clariant's website ([www.clariant.com](http://www.clariant.com)). The committees' report on their activities and results to the Board of Directors. They prepare the business of the Board of Directors in their respective areas.

The **Chairman's Committee** (CC) comprises the Chairman, the Vice Chairman and a third member of the Board of Directors. The Committee prepares the meetings of the Board of Directors. The CC meets as needed and at least once before each meeting of the Board of Directors. The committee makes decisions on financial and other matters delegated by the Board of Directors in accordance with the Bylaws of the Board of Directors. In addition, the CC passes resolutions for which the Board

of Directors is responsible when matters cannot be postponed. The CC draws up principles for the selection of candidates for election and re-election to the Board of Directors and for the CEO and prepares the corresponding recommendations. Further, it considers and submits to the Board of Directors the CEO's proposals concerning candidates for Executive Committee positions.

The **Compensation Committee** (CoC) comprises three members of the Board of Directors. Its Chairman must be an independent, non-executive member of the Board of Directors. The CoC meets at least twice a year. The CoC draws up the principles for compensation of members of the Board of Directors and submits them to the Board of Directors for approval. It approves the employment contracts for the CEO and members of the Executive Committee. All appointments and dismissals that fall within the remit of the Board of Directors must be submitted in advance to the CoC. The CoC reviews the bonus and share plans. Furthermore, it reviews fringe benefit regulations, dismissal regulations, and contractual severance compensation packages with the CEO, members of the Executive Committee, Heads of Global Functions and Regional Presidents.

The **Audit Committee** (AC) comprises three members of the Board of Directors. The Chairman must be an independent, non-executive member of the Board of Directors. A majority of the members of the AC must have financial experience. The AC reviews the activities of the external auditors, their collaboration with the internal auditors and their organizational adequacy. It also reviews the performance, compensation and independence of the external auditors as well as the performance of the internal auditors and reports back to the Board of Directors. Furthermore, the AC reviews the company's internal control and risk management systems and reviews compliance with the law and internal regulations – in particular, with the Code of Conduct. In collaboration with the Group's external and internal auditors and financial and accounting management, the AC reviews the appropriateness, effectiveness and compliance of accounting policies and financial controls with applicable

BOARD OF DIRECTORS – COMMITTEES<sup>1</sup>

	Number of meetings	Duration/h	CEO/CFO	Other attendees
Board of Directors	8	6–8	yes	Executive Committee and General Counsel
Chairman's Committee	11	4–8	yes	Executive Committee when submitting own proposals
Audit Committee	6	3–4	CFO	Auditors, Risk Management and General Counsel
Compensation Committee	4	2–3	no	Head of Group Human Resources
Technology and Innovation Committee	2	3	CEO	Head of Technology

<sup>1</sup> The development of the economic environment required more intense committee activity.

accounting standards. The AC reviews and recommends the Group's financial statements for the first three quarters of each year and the corresponding release of the financial results to the Board of Directors for approval.

The **Technology and Innovation Committee** (TIC) comprises three members of the Board of Directors with experience in research, innovation management, and/or information technology. The TIC usually meets at least twice a year. The tasks of the TIC include assessing the company's innovative activities on behalf of the Board of Directors. The TIC also reviews measures to stimulate research and development and optimize innovative potential.

#### DEFINITION OF AREAS OF RESPONSIBILITY

In accordance with the law and the Articles of Association, the Board of Directors is the ultimate decision-making authority for Clariant Ltd in all matters except those decisions reserved by law or the Articles of Association for the shareholders. The Board of Directors has sole authority in particular for the following in accordance with and supplementary to Article 716a of the Code of Obligations (non-transferable and inalienable duties of the Board of Directors) and Article 23 of the Articles of Association:

- › Providing the strategic direction of the Group;
- › Approving the basic outline of the Group organization and its governance;
- › Supervising the business operations overall;
- › Evaluating the performance of the CEO and members of the Executive Committee;
- › Appointing and dismissing the CEO and members of the Executive Committee, the Head of Internal Audit and other key executives;
- › Approving the basic accounting system, financial planning and control;
- › Approving the Group's annual budget;
- › Reviewing and approving the quarterly financial statements and results release of Clariant Ltd and the Group;
- › Approving the consolidated financial statements of the Group for the business year;
- › Approving major M&A transactions and financial transactions of considerable scope 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;
- › 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 in particular on financial matters, corporate governance and citizenship, personnel and environmental matters;

- › Ensuring succession planning and management development;
- › Convening the Annual General Meeting (AGM), determining the items on the agenda and the proposals to be made to the AGM, approving the Annual Report including Clariant Ltd's annual financial statements and the consolidated financial statements of the Group.

#### WORKING METHODS

The Board of Directors and its committees hold at least five regular meetings and extraordinary meetings by phone or in person as required. The company's strategy is reviewed and further developed once a year during a two-day meeting. Individual members of the Executive Committee are invited to attend the Board of Directors' meetings depending on the matter in hand. The views of external and internal consultants are heard if this becomes necessary as a result of projects of considerable scope. In order to assess its working methods, the Board of Directors carries out a self-assessment once a year.

#### MANAGEMENT OF THE GROUP

The Board of Directors has delegated the executive management of Clariant Group to the CEO and the other members of the Executive Committee.

The Executive Committee 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's structure and organization. The members of the Executive Committee are appointed by the Board of Directors based on recommendations made by the Chairman's Committee and the Compensation Committee. Subject to the responsibility of the Board of Directors or the Annual Shareholder Meeting, the CEO and under his supervision the Executive Committee is responsible for:

- › Drawing up strategic plans and policies for approval by the Board of Directors;
- › Implementing Group strategies and policies as well as strategies and action programs of individual divisions and subsidiaries;
- › Managing the divisions and functions to ensure efficient operations including regularly assessing the achievement of goals;
- › Regularly informing the Board of Directors and its committees of all matters of fundamental significance to the Group and its businesses;
- › Ensuring compliance with legal requirements and internal regulations;
- › Establishing a management and corporate culture in line with the company's objectives;

- › Promoting an active internal and external communications policy;
- › Appointing and dismissing senior management including appropriate succession planning.

Under the leadership of the CEO, the four divisions are the highest-level operating units within the Group. They 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 sales revenue and earnings generated from the operations assigned to them. In particular, this includes exploiting existing business potential, identifying new business opportunities and pursuing the active management of their products and services portfolio.

The divisions' activities are complemented and supported by global group functions (e.g. procurement, finance, information technology, etc.) organized as service centers.

#### INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE EXECUTIVE COMMITTEE

The Board of Directors ensures that it receives sufficient information from the Executive Committee to perform its supervisory duties and make decisions that are reserved for the Board of Directors.

The Board of Directors obtains the information required to perform its duties through several means:

- › The CEO and the CFO inform all directors regularly about current developments, including via the regular submission of written reports such as key performance indicators for each business;
- › The minutes of committee meetings are made available to the directors;
- › Informal meetings and teleconferences are held as required between the CEO and the Chairman;
- › By invitation, members of management are invited to attend Board of Directors' meetings to report on areas of the business under their jurisdiction;
- › Directors are entitled to request information from members of the Executive Committee or any other Clariant senior manager.

#### BOARD COMMITTEES

Board Committees regularly meet with management to review the business, better understand applicable laws and policies affecting the Group and support management in meeting the requirements and expectations of stakeholders.

In particular, the CFO and external auditor representatives are invited to meetings of the Audit Committee. Furthermore, the Heads of Internal Audit and Risk Management as well as the company's General Counsel report on a regular basis to the Audit Committee.

The Audit Committee reviews financial reporting processes on behalf of the Board of Directors. For each quarterly and annual release of financial information, an internal team reviews the release for accuracy and completeness of disclosures and reports to the Audit Committee before publication of quarterly and annual releases.

#### INTERNAL AUDIT

The internal audit function carries out operational and system audits in accordance with an audit plan adopted by the Audit Committee and assists organizational units in the accomplishment of objectives by providing an independent approach to the evaluation, improvement and effectiveness of their internal control framework. The internal audit function also prepares reports regarding the audits it has performed, and reports actual or suspected irregularities to the Audit Committee and the Chairman of the Board of Directors.

The Audit Committee regularly reviews the scope, plans and results of the internal audit.

The Group pursues a risk-oriented approach to auditing and coordinates internal audit activities with the external auditors on a regular basis. Detailed information on Clariant's risk management system can be found on page 34 of this report.

## THE EXECUTIVE COMMITTEE

The Executive Committee consists of the CEO, the CFO and the four Division Heads.

### MEMBERS OF THE EXECUTIVE COMMITTEE

At the end of 2008, the Executive Committee comprised the following members:

#### **Hariolf Kottmann, German citizen**

Chief Executive Officer (CEO)

Hariolf Kottmann earned his PhD in organic chemistry at the University of Stuttgart in 1984. In 1985, he launched his career at the former Hoechst AG in Frankfurt where he held several key management positions across the company's chemical divisions and functions. In 1996, he was appointed deputy head of the Basic Chemicals Division at Hoechst AG and took responsibility for the Inorganic Chemicals BU. In 1998, he joined Celanese Ltd in New Jersey (USA) as a member of the Executive Committee and Head of the Organic Chemicals business. In April 2001, he was appointed as a member of the Executive Committee of SGL Carbon AG where he was responsible for the Advanced Materials Division and the Eastern Europe and Asia regions until September 30, 2008. He was also in charge of the SGL Excellence, Technology and Innovation corporate functions. He became CEO of Clariant on October 1, 2008.

#### **Patrick Jany, 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.

#### **Peter Brandenburg, Swiss citizen**

Head of Textile, Leather & Paper Chemicals Division

Peter Brandenburg 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 became responsible for the global service functions in 2005. From 2000 to 2003, he was CEO of Clariant GmbH, Germany, with responsibility for all German operations.

From 1997 to 1999, he managed the former Process & Performance Products Division and from 1995 to 1997, the Textile Division. He joined Sandoz in 1970 and held a number of management positions in Latin America, South Africa and Japan for almost 20 years. From 1982 to 1990, he was CEO in Japan. He was trained in business administration in Switzerland and the United States.

#### **Siegfried Fischer, German citizen**

Head of the Functional Chemicals Division

Siegfried Fischer is an engineer and holds a PhD in mechanical engineering. He was appointed Head of the Functional Chemicals Division in April 2003. Following the merger of Clariant and Hoechst's Specialty Chemicals business, he joined the company in 1997 as Head of Production and Technology in the Process and Performance Products Division. In 1998, he became Head of the Performance Chemicals Business in the Functional Chemicals Division. He began his career in 1984 at Hoechst, where he held various positions, including Head of Engineering, ESHA & Production in the Surfactants and Additives Department.

#### **Okke Koo, 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, he worked for Avery Dennison, Akzo Nobel Coatings, VNU Publications, and Beecham Pharmaceuticals.

#### **Dominik von Bertrab, 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 (TLP), Head of the Paper BU 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. He studied business administration in Switzerland.

#### MANAGEMENT CHANGES IN 2008

Hariolf Kottmann replaced Jan Secher as CEO effective October 1, 2008. Johann Steiner left Clariant, his function being taken over in the interim by Dominik von Bertrab. Furthermore, as part of the streamlining of critical management processes announced in November, Andy Piers stepped down from the Executive Committee at the end of 2008 to concentrate on his new task as Group Chief Technology Officer with enlarged responsibility across all Divisions and Business Units.

#### 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 chairman of the Board of TEGEWA e.V., Frankfurt, Germany. The members of the Executive Committee neither undertake other activities nor hold consultancy functions or other offices.

#### MANAGEMENT CONTRACTS WITH THIRD PARTIES

There are no management contracts with third parties pursuant to these guidelines.

#### CONTRACTUAL ARRANGEMENTS FOR MEMBERS OF THE EXECUTIVE COMMITTEE

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

Contracts of the members of the Executive Committee have a standardized notice period of 12 months. This notice period sets out a detailed and exhaustive list of the claims associated with severance. Specific change of control agreements are in place with the CEO and with members of the Executive Committee. If Clariant should serve notice under a change of ownership, the value of the severance payment to the CEO amounts to 24 months and to members of the Executive Committee 18 months.

#### SHAREHOLDERS' PARTICIPATION RIGHTS

Each registered share entitles the holder to one vote at General Shareholder Meetings. Shareholders have the right to receive dividends and hold such other rights as are granted by the Swiss Code of Obligations. However, only shareholders registered in the Clariant share register may exercise their voting rights.

#### VOTING RIGHTS AND REPRESENTATION

A registered shareholder may be represented at the Annual General Meeting by another shareholder with the right to vote, a legal representative, a corporate body of Clariant (Organvertreter), the 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 percent of the share capital in accordance with Article 12, paragraph 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.

#### STATUTORY QUORUMS

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

#### CONVOCATION OF THE ANNUAL GENERAL MEETING

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

#### AGENDA FOR THE NEXT ANNUAL GENERAL MEETING IN 2010

The Articles of Association do not contain any rules that differ from the legal provisions. Shareholders representing shares with a nominal value of CHF 1 million have the right to submit requests in writing at least 45 days prior to the Annual General Meeting for items to be included on the agenda for the 15th Annual General Meeting, to be held on March 29, 2010. Such requests must specify the item(s) to be included in the agenda and must contain a proposal on which the shareholder requests a vote.

#### 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 26, 2010 in order to be entitled to vote in the Annual General Meeting on March 29, 2010. There are no voting rights restrictions except those mentioned above.

## **CHANGE OF CONTROL AND DEFENSE MEASURES**

### **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.

### **CLAUSES ON CHANGES OF CONTROL**

There are no clauses on changes of control.

## **AUDITORS**

### **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, Matthias Jeger, who was appointed as Lead Auditor in May 2004.

### **AUDITING HONORARIUM**

PricewaterhouseCoopers received a fee of CHF 6.9 million for auditing the 2008 financial statements (2007: CHF 6.0 million).

### **ADDITIONAL HONORARIUMS**

PricewaterhouseCoopers received a total fee of CHF 6.1 million for additional services (2007: CHF 3.3 million). Audit-related services accounted for 62 percent (CHF 3.8 million) of this amount.

### **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 six joint meetings with external auditor representatives. These meetings lasted three to four hours on average and were in general attended by all members of the Audit Committee, one or both of the partners of the audit firm, one of the audit firm's managers, Clariant's CFO and the Group Accountant. Depending on the matter in hand, the meetings were also attended by one or more of the following: the Head of the Internal Audit, the General Counsel, and the Head of Risk Management. The auditors communicate audit plans and findings to the Audit Committee and issue reports to the Board of Directors in accordance with Article 728b of the Swiss Code of Obligations.

## **INFORMATION POLICY**

Clariant is committed to open and transparent communications with shareholders, financial analysts, customers, suppliers and other stakeholders. Clariant aims to disseminate material developments concerning its businesses in a broad and timely manner that complies with the rules of the SIX Swiss Exchange. Clariant provides timely information to all shareholders who supply the share register with their name and address. Comprehensive information is available on the company's website, [www.clariant.com](http://www.clariant.com). The site is frequently updated with relevant information and features relevant contact information.

## **RESPONSIBILITIES**

Clariant expects each Executive Committee member and all business unit, regional, finance and function heads to assess the threats and opportunities within their areas of responsibility.

These leaders and their direct reports are responsible for identifying risks and taking measures to mitigate such risks. Risks and measures are reviewed at least twice a year.

## **AUDIT COMMITTEE, RISK MANAGEMENT STEERING COMMITTEE AND REPORTING LINES**

The Risk Management Steering Committee (RMSC) is responsible for the risk management review and monitoring process. This committee comprises the Chief Financial Officer, General Counsel, Head of Corporate Development and the Group Risk Manager.

The RMSC regularly reports to the Audit Committee, CEO and Executive Committee. A reporting structure is in place to inform the CEO of significant issues or changes.

The AC annually reviews the process, developments and results of the mitigation measures for identified risks and reports to the Board of Directors on the Risk Management process' efficacy.

The disclosure on the Enterprise Risk Management process is subject to review by the auditors as part of their financial statement audit.

# COMPENSATION REPORT

## REMUNERATION, SHAREHOLDINGS AND LOANS

Given that the figures relating to the compensation of the Board of Directors and members of the Executive Committee are reported in some detail in the Notes to the Financial 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.

### MEMBERS AND RESPONSIBILITIES OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee (CoC) is currently made up of three non-executive members of the Board of Directors: Rudolf Wehrli (Chairman) and the other two members, Jürg Witmer and Klaus Jenny. The Secretary to the CoC is the Head of Human Resources. The chair of the CoC may invite the CEO to discussions on individual agenda items, taking into account potential conflicts of interest which would oblige him to abstain.

The CoC establishes 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 with the CEO and members of the Executive Committee (EC). Also, it takes note of employment contracts of Heads of Global Functions, Global Business Units and Regional Presidents, including the corresponding compensations. All appointments and dismissals that fall within the remit of the Board of Directors are submitted in advance to the CoC, which makes a recommendation to the Board of Directors. If the matter is urgent, the CoC may take decisions together with the Chairman's Committee (CC).

The CoC 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 CEO, members of the EC, Heads of Global Functions, Global Business Units and Regional Presidents.

The CoC holds at least two meetings per year as a rule:

- a) Spring: Deliberation on the allocation to the executive bonus plan, determination of bonus payments for members of the EC, allocation to the bonus budget for top performers
- b) Summer: Fundamental matters concerning the Group's HR priorities

The CoC also meets as needed. In 2008, the CoC met for four meetings, additionally several bilateral discussions and telephone conferences were held.

### BASIC PRINCIPLES

Clariant wishes to be an attractive employer with the ability to retain and motivate qualified employees and experts throughout the world.

In particular, Clariant's compensation policy for management is based on the following 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 and experts, 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, the CEO, and members of the EC) the highest degree of clarity and goal-orientation.

In order to uphold these principles, the CoC analyzes and discusses market developments at regular intervals and considers the implications for Clariant.



Based on these analyses, the CoC defines a reference range for the total compensation of the members of the board, members of the EC and senior executives, which is used to determine the individual level of their total compensation. The actual level of compensation paid to members of the EC and senior management depends specifically on the performance achieved in a given financial year.

The most recent analyses recommended an increase of variable remuneration elements which rewards performance achievements of the Group. The Board of Directors decided to establish a tradable option plan as an additional long-term incentive medium, specifically to focus management on value generation and share price development. Decisions regarding possible renewals of this plan in years to come will be taken year-by-year.

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

The newly revised structure of the compensation for members of the Board of Directors is set out in the Guideline on the Remuneration of Members of the Board of Directors of Clariant AG of April 2008 which has been adapted in the light of substantially increased involvement across the Board of Directors resulting from the simultaneous change of Chairman and Vice Chairman and a review of the strategy.

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

- a) Annual basic fee
- b) Committee membership fees
- c) Stock options

The annual basic fee for a member of the Board of Directors is CHF 100 000 gross per financial year. The fee for a member of the CC is CHF 250 000 gross per financial year, whilst the fee payable to the Chairman of the Board of Directors has been set at CHF 500 000 gross per financial year. For participation in committees there is a flat compensation of CHF 20 000 each for ordinary members and CHF 40 000 for the chair. In each case, the fees are paid in cash in equal parts in March and September.

In addition to the annual basic fee, the Board of Directors participated in the stock option program 2008 of Clariant. The allocation of options is equivalent to CHF 50 000 for a member of the Board of Directors, CHF 100 000 for a member of the CC, and CHF 200 000 for the Chairman. Meanwhile, the Board of Directors has decided that, for 2009, there will be no stock option program for Clariant.

Since April 2008 no meeting attendance fees have been paid for meetings of the committees or for the plenary meetings 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. For detailed information on the compensation for the Board of Directors refer to Note 12 of the Notes to the Financial Report of Clariant Ltd on page 125 and 126.

#### COMPENSATION OF MEMBERS OF THE EXECUTIVE COMMITTEE

The CoC regularly reviews the level and structure of the compensations for the members of the EC. Various market analyses are used for these reviews:

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

The remuneration structure on average contains a fixed portion of the target income of EC members of less than 50 percent. 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 zero and double these target values in the financial year in question, depending on the extent to which these objectives are achieved.

#### OTHER PAYMENTS

The members of the EC 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 up to a further CHF 595 000 per annum. The maximum insured income under the pension schemes therefore stands at CHF 795 000 per annum. The total insured income for the CEO is CHF 1 000 000, in continuation of earlier retirement plans of the CEO. Clariant's pension schemes conform with the legal framework of the occupational pension scheme (BVG). For members of the EC 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 percent of the insured income in the case of the Clariant pension fund, and 22 percent 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.

#### VARIABLE REMUNERATION FOR MEMBERS OF THE EXECUTIVE COMMITTEE

The Clariant Executive Bonus Plan (CEBP) 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 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 CoC grants an additional top performer budget each year amounting to 5 percent of the total bonus, which is shared between no more than 20 percent of the participants.

The annual evaluation of the achievement of objectives and allocation of funds for the CEBP are conducted by the CoC 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 closely aligned with the Group's overall result. The total amount of bonus payments to the participants of the CEBP for the financial year 2008 stands at 55 percent of the total target amounts.

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. For detailed information on the compensation for the EC refer to Note 12 of the Financial Statements of Clariant Ltd on pages 127 and 128.

#### EQUITY-BASED REMUNERATION

Clariant uses equity-based income components for approximately 270 top managers worldwide. Under the CEBP, these employees receive 50 percent 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 CoC determines an allotment rate derived 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.

In addition, the term of the new 2008 Clariant Stock Option Plan is five years, and membership is limited to the Board of Directors, the Board of Management and selected senior executives. The option term of five years is divided into a "Vesting Period" (first two years) and an "Exercise Period" (last three years).

Eligible participants will receive a fixed number of options in accordance with an expected value point set by the Board of Directors. Eligibility and endowment will be reviewed each year that the scheme is in operation.

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

#### COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

The rules set out above governing the remuneration of the members of the EC are also applicable to the CEO. For detailed information on the remuneration of the CEO refer to Note 12 of the Financial Statements of Clariant Ltd on pages 127 and 128.

*Our aim is to sustainably increase profitability  
and at the same time respond to market developments.*

# ***FINANCIAL REPORT***

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**CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP**  
**CONSOLIDATED BALANCE SHEETS** at December 31, 2008 and 2007

ASSETS	Notes <sup>1</sup>	31.12.2008		31.12.2007	
		CHF mn	%	CHF mn	%
<b>Non-current assets</b>					
Property, plant and equipment	5	2 010		2 401	
Intangible assets	6	283		339	
Investments in associates	7	275		294	
Financial assets	8	21		17	
Prepaid pension assets	16	119		122	
Deferred income tax assets	9	67		113	
<b>Total non-current assets</b>		<b>2 775</b>	46.7	<b>3 286</b>	45.1
<b>Current assets</b>					
Inventories	10	1 373		1 477	
Trade receivables	11	1 110		1 449	
Other current assets	12	300		535	
Cash and cash equivalents	13	356		509	
Current income tax receivables		32		29	
<b>Total current assets</b>		<b>3 171</b>	53.3	<b>3 999</b>	54.9
<b>Total assets</b>		<b>5 946</b>	100.0	<b>7 285</b>	100.0
<b>EQUITY AND LIABILITIES</b>					
	Notes <sup>1</sup>	31.12.2008		31.12.2007	
		CHF mn	%	CHF mn	%
<b>Equity</b>					
Share capital	14, 29	921		978	
Treasury shares (par value)	14, 29	-15		-16	
Other reserves	29	364		642	
Retained earnings	29	667		709	
<b>Total capital and reserves attributable to Clariant shareholders</b>		<b>1 937</b>		<b>2 313</b>	
Minority interests	29	50		59	
<b>Total equity</b>	29	<b>1 987</b>	33.4	<b>2 372</b>	32.6
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial debts	15	1 297		1 267	
Deferred income tax liabilities	9	134		179	
Retirement benefit obligations	16	478		515	
Provision for non-current liabilities	17	191		231	
<b>Total non-current liabilities</b>		<b>2 100</b>	35.3	<b>2 192</b>	30.0
<b>Current liabilities</b>					
Trade payables	18	1 011		1 321	
Financial debts	19	268		728	
Current income tax liabilities		243		244	
Provision for current liabilities	20	337		428	
<b>Total current liabilities</b>		<b>1 859</b>	31.3	<b>2 721</b>	37.4
<b>Total liabilities</b>		<b>3 959</b>	66.6	<b>4 913</b>	67.4
<b>Total equity and liabilities</b>		<b>5 946</b>	100.0	<b>7 285</b>	100.0

<sup>1</sup> The notes form an integral part of the consolidated financial statements.

**CONSOLIDATED INCOME STATEMENTS** for the years ended December 31, 2008 and 2007

	Notes <sup>1</sup>	2008		2007	
		CHF mn	%	CHF mn	%
Sales	21, 22	8 071	100.0	8 533	100.0
Costs of goods sold		-5 757		-6 045	
<b>Gross profit</b>		<b>2 314</b>	28.7	<b>2 488</b>	29.2
Marketing and distribution		-1 216		-1 384	
Administration and general overhead costs		-421		-391	
Research and development		-184		-211	
Income from associates	7	37		37	
Gain from the disposal of activities not qualifying as discontinued operations	24	20		1	
Restructuring and impairment	28	-321		-262	
<b>Operating income</b>		<b>229</b>	2.8	<b>278</b>	3.3
Finance income	26	17		31	
Finance costs	26	-155		-102	
<b>Income before taxes</b>		<b>91</b>		<b>207</b>	
Taxes	9	-119		-99	
<b>Net loss/income from continuing operations</b>		<b>-28</b>	-0.3	<b>108</b>	1.3
<b>Discontinued operations</b>					
Loss from discontinued operations	23	-9		-103	
<b>Net loss/income</b>		<b>-37</b>	-0.5	<b>5</b>	0.1
Attributable to:					
Shareholders of Clariant Ltd		-45		-2	
Minority interests		8		7	
<b>Net loss/income</b>		<b>-37</b>	-0.5	<b>5</b>	0.1
<b>Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)</b>					
Continuing operations	27	-0.16		0.44	
Discontinued operations	27	-0.04		-0.45	
<b>Total</b>		<b>-0.20</b>		<b>-0.01</b>	
<b>Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)</b>					
Continuing operations	27	-0.16		0.44	
Discontinued operations	27	-0.04		-0.45	
<b>Total</b>		<b>-0.20</b>		<b>-0.01</b>	

<sup>1</sup> The notes form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS** for the years ended December 31, 2008 and 2007

	Notes <sup>1</sup>	<b>2008</b> CHF mn	2007 CHF mn
Net loss / income		-37	5
Adjustment for:			
Depreciation of property, plant and equipment (PPE)	5	244	264
Impairment and reversal of impairment	28	209	84
Amortization of intangible assets	6	9	9
Impairment of working capital		70	53
Income from associates	7	-37	-37
Tax expense		119	99
Net financial income and costs		85	94
Gain from the disposal of activities not qualifying as discontinued operations	24	-20	-1
Loss on disposal of discontinued operations	23	9	70
Other non-cash items		50	-20
<b>Total reversal of non-cash items</b>		<b>738</b>	<b>615</b>
Dividends received from associates	7	34	30
Interest paid		-98	-86
Interest received		15	29
Income taxes paid		-109	-88
<b>Cash flow before changes in working capital and provisions</b>		<b>543</b>	<b>505</b>
Changes in inventories		-136	-39
Changes in trade receivables		153	20
Changes in trade payables		-106	76
Changes in other current assets and liabilities		-43	-69
Changes in provisions		-20	47
<b>Cash flow from operating activities</b>		<b>391</b>	<b>540</b>
Investments in PPE	5	-270	-312
Investments in financial assets and associates		-17	-15
Investments in other intangible assets	6	-21	-8
Changes in current financial assets		135	-116
Sale of PPE and intangible assets		17	18
Acquisition of companies, businesses and participations	25	-42	-8
Payments/Proceeds from the disposal of discontinued operations	23	-14	25
Proceeds from the disposal of subsidiaries and associates	24	31	23
<b>Cash flow from investing activities</b>		<b>-181</b>	<b>-393</b>
Reduction of share capital to shareholders of Clariant Ltd	29	-57	-57
Treasury share transactions		-6	-8
Proceeds from financial debts		289	308
Repayments of financial debts		-552	-317
Dividends paid to minority shareholders	29	-5	-9
<b>Cash flow from financing activities</b>		<b>-331</b>	<b>-83</b>
Currency translation effect on cash and cash equivalents		-32	2
<b>Net change in cash and cash equivalents</b>		<b>-153</b>	<b>66</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>509</b>	<b>443</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>356</b>	<b>509</b>

<sup>1</sup> The notes form an integral part of the consolidated financial statements.



**CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE** for the years ended December 31, 2008 and 2007

		<b>2008</b>	2007
	<i>Notes<sup>1</sup></i>	<i>CHF mn</i>	<i>CHF mn</i>
Net investment hedge	30	111	-31
Currency translation differences		-401	26
Tax on items taken directly to or transferred from equity		-	-3
<b>Net income recognized directly in equity</b>		<b>-290</b>	<b>-8</b>
Net loss / income		-37	5
<b>Total recognized income and expense for the period</b>	29	<b>-327</b>	<b>-3</b>
Attributable to:			
Shareholders of Clariant Ltd	29	-323	-11
Minority interests	29	-4	8

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 29.

<sup>1</sup> 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 2008 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 SIX Swiss Exchange.

The Board of Directors has approved the consolidated financial statements for issue on February 12, 2009. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for April 2, 2009.

#### 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 the 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 in note 4.

#### 1.03 – INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN 2008

› IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 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 applies this interpretation since January 1, 2008, but it does not have any impact on the Group's accounts.

› IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 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 does not 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 January 1, 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. This adoption of the interpretation did not have any material 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 January 1, 2009 or later periods but which the Group has not early adopted. These are the following:

› IFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 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 undergone a thorough analysis and does not expect any material impact from the adoption of this standard. The Group will apply this standard from January 1, 2009.

- › IAS 23 (revised), Borrowing Costs (effective for annual periods beginning on or after January 1, 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 January 1, 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 January 1, 2009. As the new requirements concern presentation and disclosures only, they will not impact the Group's accounting policies.

- › IFRS 2 (amended), Share-based Payments (effective for accounting periods beginning on or after January 1, 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payments are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect any material impact from the adoption of the amended standard.
- › 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 July 1, 2009, with earlier application permitted. These new requirements will impact significantly the Group's accounting for future business combinations.
- › IAS 27 (amended), Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after July 1, 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 will impact the accounting for future transactions with non-controlling interest formerly minority interest.
- › Annual improvements to IFRS (mostly effective January 1, 2009) – As part of the annual improvement project the IASB issued minor, non-urgent changes to 20 International Financial Reporting Standards in May 2008. These changes are not expected to have any impact on the Group's accounts.
- › IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after July 1, 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 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009). The interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognized. This interpretation is not expected to have any impact on the Group's accounts.
- › IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods commencing on or after October 1, 2008). IFRIC 16 provides guidance on identifying the foreign currency risks that qualify

as hedged risk in the hedge of a net investment in a foreign operation; where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting; and how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. This interpretation is not expected to have any material impact on the Group's accounts.

› IFRIC 17, Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009) clarifies how an entity should measure distributions of assets, other than cash, when it pays dividends to its owners. The Interpretation states that a dividend payable should be recognized when appropriately authorized and should be measured at the fair value of the net assets to be distributed. The difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. This interpretation is not expected to have any material impact on the Group's accounts.

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

#### 1.05 – SCOPE OF CONSOLIDATION

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

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

› **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 percent and 50 percent 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 December 31. 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 – 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.

### 1.08 – 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 December 31. 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 March 31, 2004 are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 1.09 – 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.

### 1.10 – 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 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.

#### 1.11 – IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life, and thus are not subject to amortization are tested annually for impairment. Property, plant and equipment and other non-current assets, including intangible assets with a finite useful life, 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 to a large extent 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.

#### 1.12 – 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 valuation allowances, which are deducted directly from the inventory value in the balance sheet. The allowances are reversed when the inventories concerned are either sold or destroyed and as a consequence are removed from the balance sheet.

#### 1.13 – TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment of trade receivables. An allowance 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 allowance 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 allowance is recognized in the income statement.

#### 1.14 – 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.

#### 1.15 – 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 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 similarly to cash flow hedges. Clariant hedges certain net investments in foreign entities with foreign currency borrowings and cross-currency swaps. All foreign exchange gains 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.

#### 1.16 – 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.

#### 1.17 – 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.

#### 1.18 – 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.

### 1.19 – 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 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 former plans up to February 2005 continue to vest. In 2008, Clariant established a new stock option plan for members of management and the Board of Directors. The options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd at a predetermined strike price. 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.

### 1.20 – 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 percent of the present value of the defined benefit obligation at that date and 10 percent 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.

### 1.21 – 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 and the indicated time range of the outflow of economic benefits are 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.

### 1.22 – 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.

### 1.23 – 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 tanning, retanning, 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 weather 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** 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 January 1, 2007 the division also comprises the activities of Specialty Fine Chemicals which were formerly a part of the Life Science Chemicals Division.

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 Group'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.

#### 1.24 – TREASURY SHARES

Treasury shares are deducted from equity at their par value of CHF 4.00 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares are recorded in retained earnings.

#### 1.25 – 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.

#### 1.26 – 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.

#### 1.27 – 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.

When 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. When 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.

#### 1.28 – 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.

### 1.29 – 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.

### 1.30 – 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. ENTERPRISE RISK MANAGEMENT

Clariant's Enterprise Risk Management approach is designed to clarify the level of risk taken and encourage entrepreneurial behavior throughout the Group in order to reduce risks to an acceptable level. The process considers opportunities and threats to the short and medium term objectives of Clariant as decided by the Board of Directors.

The objectives of Clariant's Enterprise risk management are to ensure coordination and development of Risk Management activities through all decision levels within Clariant, to ensure that as part of the risk assessment all significant risks are communicated to the Executive Committee, the CEO and the Board of Directors, to communicate the process to the Board of Directors via the Audit Committee and to inform, train and motivate Clariant staff.

Risk Management Policy and Guideline are electronically available to Clariant managers worldwide.

Each member of the Executive Committee as well as the heads of business units and functions assess threats and opportunities arising in their areas of responsibility. Each of the above and their direct reports are risk owners responsible for the identified risks and the measures taken. Measures are reviewed at least twice a year for any changes and the assessment of the effectiveness of measures.

Risk assessments as well as measures taken shall be linked to the short and medium term objectives for Clariant overall and the objectives of the individual making the assessment.

The risk assessment is made on annual basis with quarterly updates and interim reporting of issues that arise or risks that have changed substantially. The process has an initial and an update cycle designed to deliver up-to-date results in time for the preparation of the Annual Report.

Risk management reports are extended regularly to the Audit Committee as well as the CEO and the Executive Committee. A reporting structure is in place to inform the CEO of significant issues or changes.

Once a year, the Audit Committee considers the process, developments, and results of the mitigation measures for identified risks. The Audit Committee then reports to the Board of Directors on the efficacy of the Risk Management process.

### 2.1 – ENVIRONMENTAL AND PRODUCT RISKS

Aiming to minimize possible risks for the environment, safety and health, the relevant parameters from all the Group's sites are analyzed centrally to reduce the overall risk to an acceptable level. In order to protect itself against risks arising from public and product liability, the Group concludes insurance policies and books provisions. Potential inherited liabilities arising from acquisitions or disposals are limited through contractual agreements whenever possible.

## 2.2 – LITIGATION

The outcome of litigation in legal matters including tax law, patent law, product liability, competition, or environmental protection cannot always be predicted. For litigation which is not covered by insurance, appropriate provisions are booked.

## 2.3 – INFORMATION TECHNOLOGY RISKS

Business-critical systems are operated in a central computer center with two physically separated server parks. The Group'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.

## 2.4 – FINANCIAL RISK

Financial risks and their management are described in detail in the following note.

# 3. FINANCIAL RISK MANAGEMENT

## 3.1 – 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 Group 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 risks arise 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 subsidiary'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 December 31, 2008, a bond denominated in euro with a notional amount of EUR 600 million and a certificate of indebtedness denominated in euro with a notional amount of EUR 100 million were designated as hedges of a net investment. As per December 31, 2008 the unrealized foreign exchange gain, resulting from the translation of the bond into Swiss francs, amounted to CHF 100 million (2007: a loss of CHF 31 million) and the gain resulting from the translation of the certificate of indebtedness into Swiss francs to CHF 11 million. Both gains were 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 December 31, 2008.

At December 31, 2008, if the euro had strengthened/weakened by 8 percent (2007: 4 percent) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 10 million higher/lower (2007: CHF 2 million), mainly as a result of foreign exchange gains/losses on translation of euro-denominated cash

and cash equivalents, intragroup financing and trade receivables. Equity would have been CHF 80 million lower/higher (2007: CHF 40 million), arising mainly from foreign exchange gains/losses on translation of the euro-denominated financial liabilities.

At December 31, 2008, if the US dollar had strengthened/weakened by 13 percent (2007: 7 percent) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 22 million higher/lower (2007: CHF 8 million) 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 and cash and cash equivalents expose the Group to cash flow interest rate risk; the net exposure as per December 31, 2008 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 amortized cost. At the end of 2008, 96 percent of the net financial debt was at fixed rates (2007: 91 percent).

› **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 2008 and end of 2007):

At December 31, 2008, if the CHF interest rates on net current financial debt issued at variable interest rates had been 229 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 1.2 million lower/higher (2007: CHF 1.3 million for a CHF interest rate shift of 34 basis points).

At December 31, 2008, if USD interest rates on net current financial debt issued at variable interest rates had been 416 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 2.9 million lower/higher (2007: CHF 0.7 million shift for a US dollar interest rate change of 72 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 December 31, 2008.

#### 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 December 31, 2008 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 (excluding the bank managing the euro cash pool):

Counterparty	Rating	31.12.2008	31.12.2007
Bank A	AA+ (2007: AA+)	–	31.5 %
Bank B	A+ (2007: AA)	33.4 %	28.7 %
Bank C	A– (2007: A–)	–	6.3 %
Bank D	A (2007: AA)	8.0 %	–
Bank E	AA– (2007: AA–)	3.4 %	–

## 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 December 31, 2008, the Group faced the below described maturity profile. The amounts disclosed are the contractual undiscounted cash flows. In 2009 an amount of CHF 1 076 million (CHF 1 760 million in 2008) will become due whereof the main part are the trade and other accounts payable for CHF 729 million (CHF 952 million in 2008). The other CHF 342 million (2008: CHF 700 million) concern mainly various current financial liabilities of subsidiaries in the amount of CHF 270 million (2008: CHF 250 million). The remaining amount includes positions such as drawn securitization, interest payments on the bonds and warranties. For the three years between 2010 and 2012 an annual amount, mainly interest, of CHF 46 to 60 million will fall due and is already known. In 2011 the certificate of indebtedness in the amount of EUR 100 million will be repaid. The outstanding debt position of around CHF 300 million in 2012 is made up of a repayment of a CHF 250 million bond due in April and interest payments of CHF 46 million during the year. The repayment of the EUR 600 million bond including the linked interest payments will become due in 2013.

At the end of 2008 the Group was engaged in forward foreign exchange contracts in the amount of CHF 93 million. The contracts will lead to an outflow in this amount in euro, US dollars and Japanese yen within the next twelve months. Clariant engages in such instruments only for a fraction of the expected cash inflows.

The Group covers its liabilities out of operational cash flow generated, liquidity reserves in form of cash and cash equivalents (December 31, 2008: CHF 356 million vs. December 31, 2007: CHF 509 million), non-utilised, available asset-backed-security lines (December 31, 2008: CHF 35 million vs. December 31, 2007: CHF 158 million), committed open credit lines (December 31, 2008: CHF 750 million vs. December 31, 2007: CHF 750 million), uncommitted open cash pool limits (December 31, 2008: CHF 210 million vs. December 31, 2007: CHF 200 million) and through the selected issuance of capital market instruments.

In the current economic situation, scenarios are possible which could additionally affect the Group's liquidity temporarily in a negative manner.

## 3.2 – 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.

## 3.3 – 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 December 31, 2008 and 2007 respectively:

CHF mn	2008	2007
Total equity	1 987	2 372
Total current and non-current financial liabilities	1 565	1 995
Estimated operating lease liabilities	492	625
Less cash and cash equivalents	-356	-509
Cash needed for operating purposes	161	171
<b>Invested capital</b>	<b>3 849</b>	<b>4 654</b>

#### 4. 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 1.10 and 1.11. 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, 6 and 28).

##### (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 17, 20 and 34).

##### (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 16).



## 5. PROPERTY, PLANT AND EQUIPMENT

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total	Insured value at December 31
<b>At January 1, 2007</b>							
Cost	564	2 357	5 020	501	124	8 566	
Accumulated depreciation	-167	-1 590	-3 953	-426	-8	-6 144	
<b>Net book value</b>	<b>397</b>	<b>767</b>	<b>1 067</b>	<b>75</b>	<b>116</b>	<b>2 422</b>	
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	
<b>At December 31, 2007</b>	<b>392</b>	<b>742</b>	<b>1 061</b>	<b>71</b>	<b>135</b>	<b>2 401</b>	
<b>At December 31, 2008</b>							
Cost	570	2 429	4 789	494	151	8 433	
Accumulated depreciation	-178	-1 687	-3 728	-423	-16	-6 032	
<b>Net book value</b>	<b>392</b>	<b>742</b>	<b>1 061</b>	<b>71</b>	<b>135</b>	<b>2 401</b>	<b>9 237</b>
Additions		25	83	15	147	270	
Acquisitions			3			3	
Reclassifications	1	57	127	7	-192	-	
Disposals	-3	-9	-6	-1	-1	-20	
Depreciation		-58	-164	-22		-244	
Impairment		-49	-67	-		-116	
Reversal of impairment			2			2	
Exchange rate differences	-46	-101	-111	-7	-21	-286	
<b>At December 31, 2008</b>	<b>344</b>	<b>607</b>	<b>928</b>	<b>63</b>	<b>68</b>	<b>2 010</b>	
<b>At December 31, 2009</b>							
Cost	497	2 169	4 253	436	84	7 439	
Accumulated depreciation	-153	-1 562	-3 325	-373	-16	-5 429	
<b>Net book value</b>	<b>344</b>	<b>607</b>	<b>928</b>	<b>63</b>	<b>68</b>	<b>2 010</b>	<b>8 491</b>

The net assets of the CGU Textiles were tested for impairment in 2008. For the impairment testing procedure, the planning assumptions were critically reviewed. This review resulted in lower expected cash flows from the Textiles business in the coming years and a reduced estimated recoverable amount from the respective net assets calculated on a value-in-use basis. As a consequence, the property, plant and equipment of this CGU were revalued for impairment by the amount of CHF

85 million. Apart from this, impairment charges in the amount of CHF 31 million arose as a result of site closures and restructuring measures. This impairment is reported in the line "Restructuring and impairment" in the income statement.

If the assumed annual growth rate were reduced by one percentage point, the carrying amount would exceed the recoverable amount of the

**PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

CGU's net assets by CHF 103 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 109 million.

As at December 31, 2008, commitments for the purchase of PPE totalled CHF 46 million (2007: CHF 51 million).

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

<i>CHF mn</i>	<b>31.12.2008</b>	31.12.2007
Cost – capitalized finance leases	24	22
Accumulated depreciation	–9	–6
<b>Net book value</b>	<b>15</b>	<b>16</b>

Finance lease liability – minimum lease payments:

<i>CHF mn</i>	<b>31.12.2008</b>	31.12.2007
No later than 1 year	3	3
Later than 1 year but no later than 5 years	9	10
Later than 5 years	18	19
<b>Total minimum lease payments</b>	<b>30</b>	<b>32</b>
Future finance charge on finance leases	–14	–16
<b>Present value of finance lease liabilities</b>	<b>16</b>	<b>16</b>

The present value of finance lease liabilities is as follows:

<i>CHF mn</i>	<b>31.12.2008</b>	31.12.2007
No later than 1 year	2	2
Later than 1 year but no later than 5 years	7	7
Later than 5 years	7	7
<b>Total minimum lease payments</b>	<b>16</b>	<b>16</b>

The corresponding liability related to finance lease contracts is disclosed in Note 15.

## 6. INTANGIBLE ASSETS

<i>CHF mn</i>	<i>Goodwill</i>	<i>Other</i>	<b><i>Total</i></b>
<b>At January 1, 2007</b>			
Cost	406	136	542
Accumulated amortization	-100	-107	-207
<b>Net book value</b>	<b>306</b>	<b>29</b>	<b>335</b>
Additions		8	8
Acquisitions		5	5
Amortization		-9	-9
Exchange rate differences	-	-	-
<b>At December 31, 2007</b>	<b>306</b>	<b>33</b>	<b>339</b>
Cost	406	146	552
Accumulated amortization	-100	-113	-213
<b>Net book value</b>	<b>306</b>	<b>33</b>	<b>339</b>
Additions		21	21
Acquisitions	19	17	36
Disposals		-2	-2
Reclassified	-1	1	-
Amortization		-9	-9
Impairment	-95		-95
Exchange rate differences	-6	-1	-7
<b>At December 31, 2008</b>	<b>223</b>	<b>60</b>	<b>283</b>
Cost	418	168	586
Accumulated amortization	-195	-108	-303
<b>Net book value</b>	<b>223</b>	<b>60</b>	<b>283</b>

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 capitalizes internal and external costs incurred in connection with the European regulation REACH if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Apart from this, the Group 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 2008 consist of CHF 19 million arising from the purchase of 100 percent of the shares of the combined Masterbatch companies Rite Systems, Inc. and Ricon Colors, Inc. in the United States. More information on this acquisition can be found in Note 25, Business Combinations.

**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.

**INTANGIBLE ASSETS (CONTINUED)**

Goodwill is allocated to the following CGUs:

<i>CHF mn</i>	<b>31.12.2008</b>	31.12.2007
Textiles	–	6
Leather	141	231
Pigments & Additives	27	27
Masterbatches	48	35
Functional Chemicals	7	7
<b>Net book value</b>	<b>223</b>	<b>306</b>

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 assumptions 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 pre-tax discount rate was 10.8 percent for all cash generating units (2007: 10.0 percent).

The major part of goodwill is the amount of CHF 141 million (2007: 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 as a result of the recovery of the activities which was realized at a slower pace than originally expected. This review resulted in lower expected cash flows from the Leather Business in the coming years and a reduced estimated amount recoverable from the respective net assets calculated on a value in use basis. Consequently an impairment of the goodwill allocated to the CGU in the amount of CHF 90 million was recorded. This impairment is reported in the line "Restructuring and impairment" in the income statement. For the impairment testing procedure it was assumed that the CGU would achieve sales growth above market growth for the planning period. It was also assumed that EBITDA will increase over present performance due to the optimization of structural costs.

If the assumed annual growth rate were reduced by one percentage point the carrying amount would exceed the recoverable amount of the CGU's net asset by CHF 46 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 36 million. In 2006, the goodwill of Leather was already revalued for impairment in the amount of CHF 100 million.

In 2007 the CGU Textiles held goodwill in the amount of CHF 6 million. The net assets of this CGU were also tested for impairment. For the impairment testing procedure, the planning assumptions were critically reviewed. This review resulted in lower expected cash flows from the Textiles business in the coming years and a reduced estimated amount recoverable from the respective net assets calculated on a value in use basis. As a consequence, the goodwill of this CGU was written off in its entirety. This impairment is reported in the line "Restructuring and impairment" in the income statement. Additional information regarding the impairment testing of the CGU Textiles can be found in Note 5.

The CGU Pigments & Additives holds goodwill in the amount of CHF 27 million, the CGU Masterbatches holds goodwill in the amount of CHF 48 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 in line with 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.

## 7. INVESTMENTS IN ASSOCIATES

<i>CHF mn</i>	<b>2008</b>	<i>2007</i>
<b>Beginning of the year</b>	<b>294</b>	<b>288</b>
Acquisitions	12	3
Disposals	-3	-13
Share of profit	37	37
Dividends received	-34	-30
Exchange rate differences	-31	9
<b>End of the year</b>	<b>275</b>	<b>294</b>

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

<i>CHF mn</i>	<i>Country of incorporation</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Revenue</i>	<i>Profit/(Loss)</i>	<i>% Interest held</i>
<b>2007</b>						
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	
<b>Total</b>		<b>2 039</b>	<b>1 141</b>	<b>2 423</b>	<b>97</b>	
<b>2008</b>						
Infraserv GmbH & Co. Höchst KG	Germany	1 460	936	1 665	47	32
Infraserv GmbH & Co. Gendorf KG	Germany	236	140	445	9	50
Infraserv GmbH & Co. Knapsack KG	Germany	199	89	309	23	21
Others		107	39	167	11	
<b>Total</b>		<b>2 002</b>	<b>1 204</b>	<b>2 586</b>	<b>90</b>	

There were no unrecognized losses in the years 2008 and 2007. 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 its 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.

## 8. FINANCIAL ASSETS

CHF mn	2008	2007
Beginning of the year	17	63
Exchange rate differences	-1	1
Additions	5	11
Repayments and disposals		-58
<b>End of the year</b>	<b>21</b>	<b>17</b>

Financial assets include a number of small scale participations in companies, mostly in Germany.

Financial assets are denominated in the following currencies:

CHF mn	31.12.2008	31.12.2007
EUR	19	13
USD	1	1
CHF	1	2
Other		1
<b>Total</b>	<b>21</b>	<b>17</b>

The carrying amounts of the above assets are entirely classified as available for sale.

During 2007 and 2008 there were no impairments on financial assets classified as available for sale.

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

## 9. TAXES

CHF mn	2008	2007
Current income taxes	-113	-126
Deferred income taxes	-6	27
<b>Total</b>	<b>-119</b>	<b>-99</b>

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:

	2008		2007	
	CHF mn	%	CHF mn	%
<b>Income before tax</b>	<b>91</b>		<b>207</b>	
<b>Expected tax expense/rate<sup>1</sup></b>	<b>-86</b>	94.5	<b>-57</b>	27.5
Effect of taxes on items not tax-deductible	-39	42.9	-47	22.7
Effect of utilization and changes in recognition of tax losses and tax credits	22	-24.1	33	-15.9
Effect of tax losses and tax credits of current year not recognized	-60	65.9	-32	15.5
Effect of adjustments to current taxes of prior periods	3	-3.3	-8	3.9
Effect of tax exempt income	38	-41.8	8	-3.9
Effect of other items	3	-3.3	4	-1.9
<b>Effective tax expense/rate</b>	<b>-119</b>	130.8	<b>-99</b>	47.8

<sup>1</sup> Calculated based on the income before tax of each subsidiary (weighted average).

Compared to 2007, the expected tax rate was higher in 2008, mainly due to the impact of the impairment of goodwill included in the Income before tax. On this item, no deferred tax was calculated (s. also Note 6, Intangible Assets).

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

<i>CHF mn</i>	<b>2008</b>	<i>2007</i>
Beginning of the year	-66	-94
Effect of acquisitions	-1	-
Tax on vested equity share based payments reversed to equity	-	-3
Income statement charge	-6	27
Exchange rate differences	6	4
<b>End of the year</b>	<b>-67</b>	<b>-66</b>

<i>CHF mn</i>	<i>PPE and intangible assets</i>	<i>Retirement Benefit Obligations</i>	<i>Tax losses and tax credits</i>	<i>Other accruals and provisions</i>	<i>Total</i>	<i>Thereof offset with deferred tax assets within the same jurisdiction</i>	<i>Total</i>
Deferred tax assets at January 1, 2008	41	57	82	53	233	-120	113
Deferred tax liabilities at January 1, 2008	-264	-2	-	-33	-299	120	-179
<b>Net deferred tax balance at January 1, 2008</b>	<b>-223</b>	<b>55</b>	<b>82</b>	<b>20</b>	<b>-66</b>	<b>-</b>	<b>-66</b>
Charged / credited to income	14	5	-37	12	-6		
Effect of acquisitions	-2	-	-	1	-1		
Currency differences	22	-6	-4	-6	6		
<b>Net deferred tax balance at December 31, 2008</b>	<b>-189</b>	<b>54</b>	<b>41</b>	<b>27</b>	<b>-67</b>		
Deferred tax assets at December 31, 2008	32	55	41	91	219	-152	67
Deferred tax liabilities at December 31, 2008	-221	-1	-	-64	-286	152	-134
<b>Net deferred tax balance at December 31, 2008</b>	<b>-189</b>	<b>54</b>	<b>41</b>	<b>27</b>	<b>-67</b>	<b>-</b>	<b>-67</b>

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.

Of the deferred tax assets capitalized on tax losses CHF 18 million refer to tax losses of the French subsidiaries (2007: CHF 20 million), CHF 7 million to tax losses of the Italian subsidiaries (2007: CHF 13 million) and CHF 12 million to tax losses of the US subsidiaries (2007: CHF 20 million). Clariant considers it probable that these tax losses can be recovered.

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 223 million at December 31, 2008 (CHF 376 million at December 31, 2007).

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested. These unremitted earnings totalled CHF 1 839 million at the end of 2008 (2007: CHF 2 065 million).

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.

## TAXES (CONTINUED)

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

CHF mn	31.12.2008	31.12.2007
Expiry by:		
2008		372
2009	520	709
2010	6	10
2011	60	102
2012	7	
after 2012 (2007: after 2011)	1 333	872
<b>Total</b>	<b>1 926</b>	<b>2 065</b>

CHF mn	31.12.2008	31.12.2007
<b>Unrecognized tax credits</b>	<b>60</b>	<b>48</b>

The tax credits expire between 2009 and 2013.

## 10. INVENTORIES

CHF mn	31.12.2008	31.12.2007
Raw material, consumables, work in progress	527	551
Finished products	846	926
<b>Total</b>	<b>1 373</b>	<b>1 477</b>

CHF mn	2008	2007
<b>Movements in write-downs of inventories</b>		
Beginning of the year	47	52
Additions	48	45
Reversals	-44	-50
Exchange rate differences	-6	
<b>End of the year</b>	<b>45</b>	<b>47</b>

As at December 31, 2008, inventories in the amount of CHF 18 million were pledged as collateral for liabilities (2007: CHF 21 million).

The cost for raw materials and consumables recognized as an expense and included in "costs of goods sold" amounted to CHF 3 905 million (2007: CHF 3 987 million).

## 11. TRADE RECEIVABLES

CHF mn	31.12.2008	31.12.2007
Gross accounts receivable – trade	1 153	1 490
Gross accounts receivable – associates	5	8
Less: provision for impairment of accounts receivable	-48	-49
<b>Total trade receivables – net</b>	<b>1 110</b>	<b>1 449</b>

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

CHF mn	2008	2007
At January 1	-49	-65
Charged to the income statement	-30	-18
Amounts used	15	15
Unused amounts reversed	8	19
Exchange rate differences	8	
<b>At December 31</b>	<b>-48</b>	<b>-49</b>

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

CHF mn	31.12.2008	31.12.2007
Trade receivables aged up to six months	-9	-7
Trade receivables aged over six months	-30	-34
<b>Total trade receivables – net</b>	<b>-39</b>	<b>-41</b>

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 (2008: CHF 6 million, 2007: CHF 5 million).



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

CHF mn	31.12.2008	31.12.2007
Currency		
EUR	482	644
USD	162	288
GBP	18	37
JPY	74	70
CHF	4	7
Other	370	403
<b>Total trade receivables – net</b>	<b>1 110</b>	<b>1 449</b>

As of December 31, 2008, trade receivables in the amount of CHF 171 million (2007: CHF 214 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	31.12.2008	31.12.2007
up to 3 months past due, but not impaired	160	200
3 to 6 months past due, but not impaired	9	12
more than 6 months past due, but not impaired	2	2
<b>Total trade receivables – net</b>	<b>171</b>	<b>214</b>

## 12. OTHER CURRENT ASSETS

Other current assets include the following:

CHF mn	31.12.2008	31.12.2007
Other receivables	229	314
Current financial assets	29	167
Prepaid expenses and accrued income	42	54
<b>Total</b>	<b>300</b>	<b>535</b>

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 2008 and 2007.

Other receivables are denominated in the following currencies:

CHF mn	31.12.2008	31.12.2007
EUR	122	182
USD	6	19
GBP	3	11
JPY	17	2
CHF	7	10
Other	74	90
<b>Total</b>	<b>229</b>	<b>314</b>

Current financial assets are denominated in the following currencies:

CHF mn	31.12.2008	31.12.2007
EUR	28	29
USD	–	1
CHF	–	131
Other	1	6
<b>Total</b>	<b>29</b>	<b>167</b>

## 13. CASH AND CASH EQUIVALENTS

CHF mn	31.12.2008	31.12.2007
Cash at bank and on hand	286	241
Short-term bank deposits	70	268
<b>Total</b>	<b>356</b>	<b>509</b>

The effective interest rate on short-term bank deposits in Swiss francs was 2.44 percent (2007: 2.40 percent); these deposits have an average maturity of 58 days (2007: 56 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.

## 14. CHANGES IN SHARE CAPITAL AND TREASURY SHARES

<b>Registered shares each with a par value of CHF 4.00 (2007: CHF 4.25)</b>	<b>Number of shares 2008</b>	<b>Par value 2008</b>	<i>Number of shares 2007</i>	<i>Par value 2007</i>
		<i>CHF mn</i>		<i>CHF mn</i>
<b>At January 1</b>	<b>230 160 000</b>	<b>978</b>	<b>230 160 000</b>	<b>1 035</b>
<b>At December 31</b>	<b>230 160 000</b>	<b>921</b>	<b>230 160 000</b>	<b>978</b>
Treasury shares	-3 826 600	-15	-3 792 691	-16
<b>Outstanding capital at December 31</b>	<b>226 333 400</b>	<b>906</b>	<b>226 367 309</b>	<b>962</b>

<b>Treasury shares (number of shares)</b>	<b>2008</b>	<i>2007</i>
Holdings at January 1	3 792 691	3 511 698
Shares purchased at fair market value	686 000	1 470 000
Shares sold at fair market value	-105 009	-880 000
Shares transferred to employees	-547 082	-309 007
<b>Holdings at December 31</b>	<b>3 826 600</b>	<b>3 792 691</b>

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 percent of the total share capital.

Bestinver Gestión S.A., Madrid held a participation of 4.97 percent of the share capital at December 31, 2008 (December 31 2007: 7.56 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

## 15. NON-CURRENT FINANCIAL DEBTS

CHF mn	Interest rate in %	Term	Notional amount	Net amount 31.12.2008	Net amount 31.12.2007
Straight bonds	4.250	2000–2008	500 CHF mn		384
Straight bonds	3.125	2007–2012	250 CHF mn	250	250
Straight bonds	4.375	2006–2013	600 EUR mn	878	994
Certificate of Indebtedness	6.432	2008–2011	100 EUR mn	149	–
<b>Total straight bonds and Certificate of Indebtedness</b>				<b>1 277</b>	<b>1 628</b>
<b>Liabilities to banks and other financial institutions<sup>1</sup></b>				<b>6</b>	<b>9</b>
<b>Obligations under finance leases</b>				<b>14</b>	<b>14</b>
<b>Subtotal</b>				<b>1 297</b>	<b>1 651</b>
<b>Less: current portion</b>				<b>–</b>	<b>–384</b>
<b>Total</b>				<b>1 297</b>	<b>1 267</b>
Breakdown by maturity			2009		7
			2010	1	2
			2011	154	
			2012	250	251
			2013	878	
			thereafter	14	1 007
<b>Total</b>				<b>1 297</b>	<b>1 267</b>
Breakdown by currency			CHF	250	251
			EUR	1 041	1 007
			other	6	9
<b>Total</b>				<b>1 297</b>	<b>1 267</b>
<b>Fair value comparison (including current portion)</b>					
Straight bonds				934	1 549
Certificate of Indebtedness				149	–
Others				20	23
<b>Total</b>				<b>1 103</b>	<b>1 572</b>
<b>Total net book value of assets pledged as collateral for financial debts</b>				<b>41</b>	<b>33</b>
Total collateralized financial debts				21	18

<sup>1</sup> Average interest rate in 2008: 15.00% (Pakistan only) (2007: 4.5%).

In March 2008, a CHF 384 million bond was paid back on expiry. The notional amount of this bond was CHF 500 million, of which CHF 116 million had been repurchased in prior periods. At the beginning of

July 2008, the Group issued a Certificate of Indebtedness in the amount of EUR 100 million. The Certificate of Indebtedness was taken on the books by eight major European banks and will expire in October 2011.

## NON-CURRENT FINANCIAL DEBTS (CONTINUED)

**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 of 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.
- › Certificate of Indebtedness, issued in two parts: A part of EUR 20 million with a fixed interest rate of 6.22 percent and a second part of EUR 80 million with a floating interest rate of 6.485 percent as at December 31, 2008.

**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 borrowers have the right to take possession of these assets and receive the cash flows resulting from them.

The assets are pledged at the usual market conditions.

## 16. 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 June 30, 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.

Changes in the present value of defined benefit obligations:

CHF mn	Pension plans (funded and unfunded)		Post-employment medical benefits (unfunded)	
	2008	2007	2008	2007
Beginning of the year	2 012	2 080	88	95
Change in the scope of consolidation	-7			
Current service cost	59	58	2	2
Interest costs on obligation	91	91	5	5
Contributions to plan by employees	14	13		
Benefits paid out to personnel in reporting period	-76	-96	-3	-4
Actuarial gains of reporting period	-124	-110	-5	-7
Effect of curtailments				2
Effect of settlements	5	6		
Exchange rate differences	-209	-30	-7	-5
<b>End of the year</b>	<b>1 765</b>	<b>2 012</b>	<b>80</b>	<b>88</b>

Changes in the fair value of plan assets:

CHF mn	2008	2007
Beginning of the year	1 743	1 698
Expected return on plan assets	91	96
Contributions to plan by employees	14	13
Contributions to plan by employer	52	79
Benefits paid out to personnel in reporting period	-54	-71
Actuarial loss of the reporting period	-394	-24
Effect of settlements	9	-2
Exchange rate differences	-167	-46
<b>End of the year</b>	<b>1 294</b>	<b>1 743</b>

The Group expects to contribute CHF 40 million to its defined benefit pension plans in 2009.

As of December 31, 2008 and 2007, the pension plan assets included no registered shares issued by the Company.

**RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

The amounts recognized in the balance sheet:

CHF mn	Defined benefit pension plans		Post-employment medical benefits		Total	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Present value of funded obligations	-1 413	-1 604			-1 413	-1 604
Fair value of plan assets	1 294	1 743			1 294	1 743
<b>Deficit/Surplus</b>	<b>-119</b>	<b>139</b>	<b>-</b>	<b>-</b>	<b>-119</b>	<b>139</b>
Present value of unfunded obligations	-352	-408	-80	-88	-432	-496
Unrecognized actuarial losses (gains)	225	50	-5		220	50
Unrecognized past service costs (gains)		1	-7	-11	-7	-10
Limitation on recognition of assets		-49			-	-49
<b>Net liabilities in the balance sheet</b>	<b>-246</b>	<b>-267</b>	<b>-92</b>	<b>-99</b>	<b>-338</b>	<b>-366</b>

Thereof recognized in:

CHF mn	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Retirement benefit obligation	-365	-389	-92	-99	-457	-488
Prepaid pension assets	119	122			119	122
<b>Net liabilities in the balance sheet for defined benefit plans</b>	<b>-246</b>	<b>-267</b>	<b>-92</b>	<b>-99</b>	<b>-338</b>	<b>-366</b>

The amounts recognized in the income statement are as follows:

CHF mn	2008	2007	2008	2007	2008	2007
Current service cost	-59	-58	-2	-2	-61	-60
Interest cost	-91	-91	-5	-5	-96	-96
Expected return on plan assets	91	96			91	96
Net actuarial losses recognized in the current year	-2	-8			-2	-8
Past service costs recognized in the current year		-1	3	3	3	2
Termination benefits					-	-
Effect of curtailments	1	1			1	1
Limitation on recognition of assets	-10	-5			-10	-5
<b>Total expenses</b>	<b>-70</b>	<b>-66</b>	<b>-4</b>	<b>-4</b>	<b>-74</b>	<b>-70</b>

Thereof the amount of CHF 0 million (2007: CHF 1 million) is reported under discontinued operations.

CHF mn	2008	2007	2008	2007	2008	2007
Actual return on plan assets	-303	72	-	-	-303	72

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

<i>CHF mn</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Defined benefit obligation	-457	-488
Defined contribution obligation	-21	-27
<b>Retirement benefit obligation</b>	<b>-478</b>	<b>-515</b>
<b>Prepaid pension plan asset</b>	<b>119</b>	<b>122</b>
<b>Net retirement benefit obligation recognized</b>	<b>-359</b>	<b>-393</b>

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

	<b>31.12. 2008</b>	<i>31.12. 2007</i>
	%	%
Equities	28	39
Bonds	42	35
Cash	5	9
Property	16	12
Alternative investments	9	5

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

	<b>2008</b>	<i>2007</i>
	%	%
Discount rate	4.9	4.9
Expected return on plan assets	5.2	5.4
Expected inflation rate	2.1	1.8
Future salary increases	2.9	2.5
Long-term increase in health care costs	8.8	9.6
Current average life expectancy for a 65 year old male	18	18
Current average life expectancy for a 65 year old female	22	22

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 Group considers long-term compound annualized returns of historical market data for each asset category, as well as historical actual returns on the Group's plan assets. Using this reference information, the Group develops for each pension plan a weighted average expected long-term rate of return.

**RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

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

<i>CHF mn</i>	<b>One percentage point increase</b>	<b>One percentage point decrease</b>
Effect on the aggregate of the service cost and interest cost	1	-1
Effect on defined benefit obligation	8	-6

Amounts for current and previous periods:

<b>Defined benefit pension plans</b>	<b>2008</b>	2007	2006	2005
<i>CHF mn</i>				
Defined benefit obligation for pension plans, funded and unfunded	-1 765	-2 012	-2 080	-2 097
Fair value of plan assets	1 294	1 743	1 698	1 567
<b>Deficit</b>	<b>-471</b>	<b>-269</b>	<b>-382</b>	<b>-530</b>
Experience adjustments on plan liabilities	27	-23	3	-23
Experience adjustments on plan assets	-394	-24	48	123
<b>Post-employment medical benefits</b>				
<i>CHF mn</i>				
Defined benefit obligation for post-employment medical plans	-80	-88	-95	-113
Experience adjustments on plan liabilities	-2	-2	-2	-3

**Defined contribution post-employment plans.** In 2008, CHF 33 million were charged to the income statements of the Group companies as contributions to defined contribution plans (2007: CHF 34 million).

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

Based on the statutory actuarial calculation of 2007, the pension fund's obligations are fully funded. Also for 2008 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 employer's 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 17 million in 2008 (CHF 18 million in 2007).

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.



## 17. MOVEMENTS IN PROVISIONS FOR NON-CURRENT LIABILITIES

CHF mn	Environmental provisions	Personnel provisions	Restructuring provisions	Other provisions	Total provisions for non-current liabilities 2008	Total provisions for non-current liabilities 2007
At January 1	119	36	3	73	231	244
Additions	2	8	5	15	30	50
Reclassifications	-23	5	12		-6	-36
Amounts used	-2	-8	-2	-10	-22	-14
Unused amounts reversed	-1	-2		-17	-20	-21
Changes due to the passage of time and changes in discount rates	5	-	-	3	8	3
Exchange rate differences	-8	-5	-1	-16	-30	5
<b>At December 31</b>	<b>92</b>	<b>34</b>	<b>17</b>	<b>48</b>	<b>191</b>	<b>231</b>
<b>Debts falling due</b>						
Between 1 and 3 years	48	10	7	1	66	93
Between 3 and 5 years	23	7	8	15	53	52
Over 5 years	21	17	2	32	72	86
<b>At December 31</b>	<b>92</b>	<b>34</b>	<b>17</b>	<b>48</b>	<b>191</b>	<b>231</b>

**Environmental provisions.** 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.

### ***MOVEMENTS IN PROVISIONS FOR NON-CURRENT LIABILITIES (CONTINUED)***

**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.

**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.

## 18. TRADE PAYABLES

<i>CHF mn</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Trade payables	518	705
Payables to associates	42	45
Accruals	282	369
Other payables	169	202
<b>Total</b>	<b>1 011</b>	<b>1 321</b>

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

## 19. CURRENT FINANCIAL DEBTS

<i>CHF mn</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Banks and other financial institutions	268	344
Current portion of non-current financial debts	–	384
<b>Total</b>	<b>268</b>	<b>728</b>

Breakdown by maturity:

<i>CHF mn</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Up to three months after the balance sheet date	138	584
Three to six months after the balance sheet date	91	109
Six to twelve months after the balance sheet date	39	35
<b>Total</b>	<b>268</b>	<b>728</b>

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.

## 20. MOVEMENTS IN PROVISIONS FOR CURRENT LIABILITIES

CHF mn	Environmental provisions	Restructuring provisions	Personnel provisions	Other provisions	Total provisions for current liabilities 2008	Total provisions for current liabilities 2007
At January 1	27	131	129	141	428	351
Additions and reclassifications	23	111	252	65	451	396
Effect of acquisitions			3		3	–
Effect of disposals			–1		–1	–
Reclassified from/to held for sale					–	5
Amounts used	–16	–79	–257	–85	–437	–286
Unused amounts reversed		–23	–21	–12	–56	–39
Exchange rate differences	–2	–22	–18	–9	–51	1
<b>At December 31</b>	<b>32</b>	<b>118</b>	<b>87</b>	<b>100</b>	<b>337</b>	<b>428</b>

**Environmental provisions.** 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, Italy 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. At each balance sheet date Clariant critically reviews all provisions and makes adjustments where required.

**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.

**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 twelve months, for which no invoice has been received at the reporting date and/or for which the amount can only be reliably estimated.

## 21. REGIONAL BREAKDOWN OF KEY FIGURES 2008 AND 2007

<b>Region</b>	Sales <sup>1</sup>		Operating income <sup>2</sup>		Number of employees at December 31	
CHF mn						
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
<b>Continuing operations</b>						
Europe	3 861	4 155	-127	21	10 005	10 749
<i>thereof in Germany</i>	1 202	1 252	131	111	4 678	4 982
<i>thereof in Switzerland</i>	141	147	-354	-161	1 538	1 642
The Americas	2 255	2 364	207	158	4 856	4 879
<i>thereof in the US</i>	900	995	46	15	1 494	1 652
<i>thereof in Brazil</i>	583	589	66	52	1 601	1 648
Asia / Africa / Australia	1 955	2 014	149	99	5 241	5 303
<b>Total continuing operations</b>	<b>8 071</b>	<b>8 533</b>	<b>229</b>	<b>278</b>	<b>20 102</b>	<b>20 931</b>

<b>Region</b>	Investments in PPE and intangibles		Depreciation of PPE and intangibles		Net operating assets at December 31 <sup>3</sup>	
CHF mn						
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
<b>Continuing operations</b>						
Europe	165	188	372	258	1 825	2 204
<i>thereof in Germany</i>	91	93	97	106	374	428
<i>thereof in Switzerland</i>	14	15	211	34	512	690
The Americas	84	78	56	53	684	758
<i>thereof in the US</i>	41	32	28	25	232	219
<i>thereof in Brazil</i>	21	24	19	20	190	264
Asia / Africa / Australia	42	48	34	39	687	771
<b>Total continuing operations</b>	<b>291</b>	<b>314</b>	<b>462</b>	<b>350</b>	<b>3 196</b>	<b>3 733</b>

<sup>1</sup> Allocated by region of third-party sale's destination.

<sup>2</sup> Allocated by region of production and selling entity.

<sup>3</sup> Non-current and current assets (excluding cash and short-term deposits) less non interest-bearing liabilities.

## 22. DIVISIONAL BREAKDOWN OF KEY FIGURES 2008 AND 2007

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)	
	2008	2007	2008	2007
Divisional sales	2 025	2 339	2 004	2 137
Sales to other divisions	-5	-7	-56	-61
<b>Total sales</b>	<b>2 020</b>	<b>2 332</b>	<b>1 948</b>	<b>2 076</b>
Operating expenses	-1 933	-2 187	-1 757	-1 904
Income from associates		-	25	20
Gain from the disposal of subsidiaries and associates	3		17	
Restructuring and impairment	-221	-105	-35	-115
<b>Operating income</b>	<b>-131</b>	<b>40</b>	<b>198</b>	<b>77</b>
Finance income				
Finance costs				
<b>Income before taxes</b>				
Taxes				
<b>Net loss/income from continuing operations</b>				
<b>Discontinued operations:</b>				
Loss from discontinued operations				
<b>Net loss/income</b>				
Total assets	1 346	1 767	1 582	1 779
Liabilities	-109	-172	-116	-174
<b>Total equity and minority interests</b>	<b>1 237</b>	<b>1 595</b>	<b>1 466</b>	<b>1 605</b>
Net debts <sup>3</sup>				
<b>Total net operating assets<sup>1</sup></b>	<b>1 237</b>	<b>1 595</b>	<b>1 466</b>	<b>1 605</b>
Thereof:				
Investments in PPE and intangibles for the period <sup>4</sup>	51	71	85	71
Investments in associates	2	3	136	143
Operating income	-131	40	198	77
Add: Systematic depreciation of PPE <sup>4</sup>	65	72	75	84
Add: Impairment loss on PPE and goodwill	183	55	12	17
Add: Amortization of other intangibles			2	2
<b>EBITDA<sup>2</sup></b>	<b>117</b>	<b>167</b>	<b>287</b>	<b>180</b>
Add: Restructuring and impairment	221	105	35	115
Less: Impairment loss on PPE and goodwill (Reported under restructuring and impairment)	-183	-55	-12	-17
Less: Gain from the disposal of subsidiaries and associates	-3	-	-17	-
<b>EBITDA before restructuring and disposals</b>	<b>152</b>	<b>217</b>	<b>293</b>	<b>278</b>
Operating income	-131	40	198	77
Add: Restructuring and impairment	221	105	35	115
Less: Gain from the disposal of subsidiaries and associates	-3	-	-17	-
<b>Operating income before restructuring, impairment and disposals</b>	<b>87</b>	<b>145</b>	<b>216</b>	<b>192</b>

<sup>1</sup> Within net operating assets, PPE including infrastructure, inventory, trade payables, receivables, investments in associates 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.

<sup>2</sup> EBITDA is earning before interest, tax, depreciation and amortization.

<b>Calculation of net debt</b>	31.12.2008	31.12.2007
CHF mn		
Non-current financial debt	1 297	1 267
Add: current financial debt	268	728
Less: cash and cash equivalents	-356	-509
Less: current deposits 90 to 365 days		-125
<b>Net debt</b>	<b>1 209</b>	<b>1 361</b>

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

	Master-batches (MB)		Functional Chemicals (FUN)		Total divisions continuing operations		Corporate		Total Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	1 279	1 381	2 881	2 803	8 189	8 660	–	–	8 189	8 660
	–1	–1	–56	–58	–118	–127	–	–	–118	–127
	<b>1 278</b>	<b>1 380</b>	<b>2 825</b>	<b>2 745</b>	<b>8 071</b>	<b>8 533</b>	<b>–</b>	<b>–</b>	<b>8 071</b>	<b>8 533</b>
	–1 191	–1 259	–2 584	–2 558	–7 465	–7 908	–113	–123	–7 578	–8 031
	2	3	8	7	35	30	2	7	37	37
	1				21	–	–1	1	20	1
	–14	–22	–13	–	–283	–242	–38	–20	–321	–262
	<b>76</b>	<b>102</b>	<b>236</b>	<b>194</b>	<b>379</b>	<b>413</b>	<b>–150</b>	<b>–135</b>	<b>229</b>	<b>278</b>
									17	31
									–155	–102
									<b>91</b>	<b>207</b>
									–119	–99
									<b>–28</b>	<b>108</b>
									–9	–103
									<b>–37</b>	<b>5</b>
	656	728	1 370	1 515	4 954	5 789	992	1 496	5 946	7 285
	–74	–111	–163	–197	–462	–654	–3 497	–4 259	–3 959	–4 913
	<b>582</b>	<b>617</b>	<b>1 207</b>	<b>1 318</b>	<b>4 492</b>	<b>5 135</b>	<b>–2 505</b>	<b>–2 763</b>	<b>1 987</b>	<b>2 372</b>
							1 209	1 361	1 209	1 361
	<b>582</b>	<b>617</b>	<b>1 207</b>	<b>1 318</b>	<b>4 492</b>	<b>5 135</b>	<b>–1 296</b>	<b>–1 402</b>	<b>3 196</b>	<b>3 733</b>
	49	64	95	85	280	291	11	23	291	314
	8	5	127	139	273	290	2	4	275	294
	76	102	236	194	379	413	–150	–135	229	278
	32	29	66	68	238	253	6	11	244	264
	2	5	2	–1	199	76	10	1	209	77
	1		1		4	2	5	7	9	9
	<b>111</b>	<b>136</b>	<b>305</b>	<b>261</b>	<b>820</b>	<b>744</b>	<b>–129</b>	<b>–116</b>	<b>691</b>	<b>628</b>
	14	22	13	–	283	242	38	20	321	262
	–2	–5	–2	1	–199	–76	–10	–1	–209	–77
	–1	–	–	–	–21	–	1	–1	–20	–1
	<b>122</b>	<b>153</b>	<b>316</b>	<b>262</b>	<b>883</b>	<b>910</b>	<b>–100</b>	<b>–98</b>	<b>783</b>	<b>812</b>
	76	102	236	194	379	413	–150	–135	229	278
	14	22	13	–	283	242	38	20	321	262
	–1	–	–	–	–21	–	1	–1	–20	–1
	<b>89</b>	<b>124</b>	<b>249</b>	<b>194</b>	<b>641</b>	<b>655</b>	<b>–111</b>	<b>–116</b>	<b>530</b>	<b>539</b>

<sup>4</sup> Discontinued operations

CHF mn

Investment in PPE and intangibles

Systematic depreciation

2008

2007

–

6

–

–

### 23. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During the year 2008 there were no discontinued operations. The loss from discontinued operations in the amount of CHF 9 million in the income statement pertains to the settlement of a claim from Archimica for which detailed information is provided in Note 34 Commitments and contingencies.

**Custom Manufacturing.** In September 2006, Clariant launched a project to sell its Custom Manufacturing Business pertaining to the former 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 result of discontinued operations of Custom Manufacturing is as follows:

<i>CHF mn</i>	<b>2008</b>	<i>2007 (6 months)</i>
Sales		82
Restructuring		3
Impairment		-7
Operating expenses		-111
Taxes		
<b>Loss from discontinued operations after taxes</b>	<b>-</b>	<b>-33</b>
Loss on the disposal of the discontinued operation		-72
Taxes (current and deferred)		7
<b>Loss from discontinued operations after taxes</b>	<b>-</b>	<b>-98</b>
<b>Cash flow from discontinued operations</b>		
<i>CHF mn</i>	<b>2008</b>	<i>2007 (6 months)</i>
Operating cash flows		-18
Investing cash flows		-7
Financing cash flows		-15
<b>Total cash flow</b>	<b>-</b>	<b>-40</b>



<b>Net assets held for sale</b>	<b>2008</b>	<b>2007<sup>1</sup></b>
<i>CHF mn</i>		
Property, plant and equipment		
Deferred tax assets		
Inventories		53
Trade receivables		22
Other current assets		1
Cash and cash equivalents		5
<b>Total assets held for sale</b>	<b>-</b>	<b>81</b>
Trade payables		28
Income tax provisions		
Provisions		21
<b>Total liabilities associated with assets held for sale</b>	<b>-</b>	<b>49</b>
Number of employees of the disposal group		458
<b>Net income and cash flow from the disposal of discontinued operations</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Total proceeds received in 2007		23
<b>Consideration for sale</b>	<b>-</b>	<b>23</b>
Net assets sold including disposal-related expenses and liabilities incurred		-95
<b>Loss on disposals before tax expense</b>	<b>-</b>	<b>-72</b>
Taxes (current and deferred)		7
<b>After tax loss on disposal</b>	<b>-</b>	<b>-65</b>
The net cash flow from sale is determined as follows:		
Proceeds received in 2007		23
Payments made in 2008 and 2007	-14	-30
Less: cash and cash equivalents in subsidiary sold		-5
<b>Net cash flow from sale</b>	<b>-14</b>	<b>-12</b>

<sup>1</sup> Net assets transferred at the date of the disposal.

**DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)**

<b>Total cash flow from the disposal of discontinued operations and assets held for sale</b>	<b>2008</b>	2007
<i>CHF mn</i>		
Net cash flow from sale of Custom Manufacturing	-14	-12
Net cash flow from sale of Pharmaceutical Fine Chemicals <sup>1</sup>		-3
Net cash flow from repayment of vendor loan note		40
<b>Net cash flow</b>	<b>-14</b>	<b>25</b>

<sup>1</sup> Additional information on the disposal of the Pharmaceutical Fine Chemicals activities can be found in the Annual Financial Statements of 2006 and 2007.

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

<b>2007</b>	<i>Pharmaceutical Fine Chemicals<sup>1</sup></i>	<i>Custom Manufacturing</i>	<b>Total 2007</b>
<i>CHF mn</i>			
Sales	-	82	82
Restructuring	-	3	3
Impairment	-	-7	-7
Operating expenses	-	-111	-111
<b>Operating loss</b>	<b>-</b>	<b>-33</b>	<b>-33</b>
Financial result	-	-	-
<b>Loss from discontinued operations before taxes</b>	<b>-</b>	<b>-33</b>	<b>-33</b>
Taxes	-	-	-
<b>Loss from discontinued operations after taxes</b>	<b>-</b>	<b>-33</b>	<b>-33</b>
Loss on the disposal of the discontinued operation	-5	-72	-77
Taxes (current and deferred)	-	7	7
<b>Loss from discontinued operations</b>	<b>-5</b>	<b>-98</b>	<b>-103</b>
<i>Thereof loss on disposal of discontinued operations and assets held for sale</i>	<i>-5</i>	<i>-65</i>	<i>-70</i>

<sup>1</sup> Additional information on the disposal of the Pharmaceutical Fine Chemicals activities can be found in the Annual Financial Statements of 2006 and 2007.

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

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

On June 30, 2008 Clariant sold the subsidiary Technische Services Gersthofen, GmbH Germany. On December 28, 2008 Clariant sold the subsidiary Dick Peters BV, Netherlands.

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

On reclassification to non-current assets held for sale in the year 2007, 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".

The net cash flow reported in this note also includes the proceeds from the liquidation of a minor subsidiary.

<b>Net income and cash flow from the disposal of activities</b>	<b>2008</b>	2007
<i>CHF mn</i>		
Consideration for sale received	30	17
Consideration for sale receivable		3
<b>Total consideration for sale</b>	<b>30</b>	<b>20</b>
Net assets sold including disposal-related expenses	-10	-19
<b>Gain on disposals</b>	<b>20</b>	<b>1</b>
<b>Net cash flow</b>	<b>31</b>	<b>23</b>

## 25. BUSINESS COMBINATIONS

**Rite Systems Inc., Ricon Colors Inc.** On July 1, 2008, Clariant acquired 100 percent of the shares of the combined US companies Rite Systems Inc. and Ricon Colors Inc., leading US Masterbatch suppliers for the amount of CHF 39 million. The acquired business contributed sales of CHF 18 million and net profit of CHF 1 million to the Group for the period from July 1, 2008 to December 31, 2008. If the acquisition had occurred

on January 1, 2008, Group sales would have increased additionally by CHF 27 million and net income would have increased additionally by CHF 2 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 January 1, 2008, together with the consequential tax effects. Acquisition related costs amounted to CHF 0.3 million.

Details of net assets acquired and goodwill are as follows:

### Purchase consideration

<i>CHF mn</i>	
Cash paid	39
<b>Total purchase consideration</b>	<b>39</b>
Fair value of net assets acquired	-20
<b>Goodwill</b>	<b>19</b>

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 July 1, 2008 arising from the acquisition are as follows:

<b>Purchase consideration</b>	<i>Pre-acquisition</i>	<i>Fair value adjustments</i>	<i>Recognized carrying amounts</i>
<i>CHF mn</i>			
Property, plant and equipment	2	1	3
Intangibles	-	17	17
Inventories	4	-	4
Trade receivables (gross)	6	-	6
Trade payables	-5	-1	-6
Provisions	-2	-1	-3
Deferred tax liabilities	-	-1	-1
<b>Net assets acquired</b>	<b>5</b>	<b>15</b>	<b>20</b>
Purchase consideration settled in cash			39
<b>Cash flow on acquisition</b>			<b>39</b>
Cash outflow for Toschem and Masterandino in 2008			3
<b>Total cash flow on acquisition</b>			<b>42</b>

**Toschem.** On October 1, 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 October 1, 2007 to December 31, 2007. If the acquisition had occurred on January 1, 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 January 1, 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

<b>Purchase consideration</b>	
<i>CHF mn</i>	
Cash paid	3
Cash payable	1
<b>Total purchase consideration</b>	<b>4</b>
Fair value of net assets acquired	-4
<b>Goodwill</b>	<b>-</b>

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

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

**BUSINESS COMBINATIONS (CONTINUED)**

**Masterandino.** On November 1, 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 November 1, 2007 to December 31, 2007. If the acquisition

had occurred on January 1, 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 January 1, 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

**Purchase consideration**

<i>CHF mn</i>	
Cash paid	5
<b>Total purchase consideration</b>	<b>5</b>
Fair value of net assets acquired	-5
<b>Goodwill</b>	<b>-</b>

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

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

## 26. FINANCE INCOME AND COSTS

<b>Finance income</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Interest income	14	26
<i>thereof interest on loans and receivables</i>	12	24
<i>thereof income from financial assets held to maturity</i>	1	1
Other financial income	3	5
<i>thereof gains on the valuation of fair value hedges</i>	–	1
<b>Total finance income</b>	<b>17</b>	<b>31</b>
<b>Finance costs</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Interest expense	–85	–107
<i>thereof effect of discounting of non-current provisions</i>	–8	–3
Other financial expenses	–17	–18
Currency result, net	–53	23
<b>Total finance costs</b>	<b>–155</b>	<b>–102</b>

Other financial income mainly consists of market valuation gains due to engagement in interest rate swaps (only 2007) and other investments.

Other financial expenses include losses on the sale of securities, bank charges and miscellaneous finance expenses.

In 2008 and 2007, 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.

## 27. 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).

	2008	2007
<b>Net loss/income attributable to shareholders of Clariant Ltd (CHF mn)</b>		
Continuing operations	-36	101
Discontinued operations	-9	-103
<b>Total</b>	<b>-45</b>	<b>-2</b>
<b>Diluted net loss/income attributable to shareholders of Clariant Ltd (CHF mn)</b>		
Continuing operations	-36	101
Discontinued operations	-9	-103
<b>Total</b>	<b>-45</b>	<b>-2</b>
<b>Shares</b>		
Holdings on January 1	226 367 309	226 648 302
Effect of the issuance of share capital and transactions with treasury shares on weighted average number of shares outstanding	165 427	505 534
<b>Weighted average number of shares outstanding</b>	<b>226 532 736</b>	<b>227 153 836</b>
Adjustment for granted Clariant shares	1 110 501	1 181 689
Adjustment for dilutive share options		31 872
<b>Weighted average diluted number of shares outstanding</b>	<b>227 643 237</b>	<b>228 367 397</b>
<b>Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share)</b>		
Continuing operations	-0.16	0.44
Discontinued operations	-0.04	-0.45
<b>Total</b>	<b>-0.20</b>	<b>-0.01</b>
<b>Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)</b>		
Continuing operations	-0.16	0.44
Discontinued operations	-0.04	-0.45
<b>Total</b>	<b>-0.20</b>	<b>-0.01</b>

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 January 1 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 January 1 of the same period.

Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year 2008 there is no dilutive effect, because the Group incurred a net loss. Therefore, basic and diluted earnings per share are equal.



## 28. RESTRUCTURING AND IMPAIRMENT

In order to increase profitability over a sustained period, Clariant implements far-reaching 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 in a substantial loss of jobs across the Group.

**Restructuring.** In 2008, Clariant recorded expenses for restructuring in the amount of CHF 112 million in continuing operations for projects mainly in the United Kingdom, Germany, Spain, France and Switzerland where several sites are closed and the headcount is being further reduced.

In July 2008, Clariant announced the closure of its production site in Horsforth, UK pertaining to the divisions Textile, Leather & Paper Chemicals and Pigments & Additives by early 2009. The closure will result in a substantial headcount reduction entailing restructuring and impairment costs in the amount of CHF 27 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 led to additional depreciation in the amount of CHF 21 million to be charged to the income statement in 2008 and 2009. 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 amount charged to the income statement for the accelerated depreciation of the assets of the Coventry site amounts to CHF 9 million in 2008 (2007: CHF 4 million). The expenses concern the Pigments & Additives division.

In 2007, the Clariant Group 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.

**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 2007 and 2008. 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. Further information on impairments can be found in Note 5, Property, Plant and Equipment and Note 6, Intangible Assets.

**RESTRUCTURING AND IMPAIRMENT (CONTINUED)**

<i>CHF mn</i>	<i>Textile, Leather &amp; Paper Chemicals (TLP)</i>		<i>Pigments &amp; Additives (PA)</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
<b>Restructuring expenses for:</b>				
Leaving indemnity	31	35	5	53
Others	7	15	18	45
<b>Total expenses for restructuring</b>	<b>38</b>	<b>50</b>	<b>23</b>	<b>98</b>
<b>Impairment of PPE:</b>				
Land and buildings	36	12	6	6
Machinery and equipment	52	43	7	11
<b>Total impairment of PPE</b>	<b>88</b>	<b>55</b>	<b>13</b>	<b>17</b>
Impairment of Goodwill	95			
<b>Total impairment</b>	<b>183</b>	<b>55</b>	<b>13</b>	<b>17</b>
Reversal of impairment of PPE	–		–1	
<b>Total impairment and reversal of impairment</b>	<b>183</b>	<b>55</b>	<b>12</b>	<b>17</b>
<b>Total restructuring and impairment</b>	<b>221</b>	<b>105</b>	<b>35</b>	<b>115</b>

	<i>Master-batches (MB)</i>		<i>Functional Chemicals (FUN)</i>		<i>Total divisions</i>		<i>Corporate</i>		<i>Total Group</i>	
	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007	<b>2008</b>	2007
	11	14	9	4	56	106	28	20	84	126
	1	3	2	-3	28	60		-1	28	59
	<b>12</b>	<b>17</b>	<b>11</b>	<b>1</b>	<b>84</b>	<b>166</b>	<b>28</b>	<b>19</b>	<b>112</b>	<b>185</b>
		-	1	-	43	18	6	1	49	19
	2	5	2	-	63	59	4	-	67	59
	<b>2</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>106</b>	<b>77</b>	<b>10</b>	<b>1</b>	<b>116</b>	<b>78</b>
					95	-			95	-
	<b>2</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>201</b>	<b>77</b>	<b>10</b>	<b>1</b>	<b>211</b>	<b>78</b>
			-1	-1	-2	-1	-		-2	-1
	<b>2</b>	<b>5</b>	<b>2</b>	<b>-1</b>	<b>199</b>	<b>76</b>	<b>10</b>	<b>1</b>	<b>209</b>	<b>77</b>
	<b>14</b>	<b>22</b>	<b>13</b>	<b>-</b>	<b>283</b>	<b>242</b>	<b>38</b>	<b>20</b>	<b>321</b>	<b>262</b>

**29. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** at December 31, 2008 and 2007

CHF mn			<b>Other reserves</b>			Retained earnings	Total attributable to equity holders	Minority interests	Total equity
	Total share capital	Treasury shares (par value)	Share premium reserves	Cumulative translation reserves	Total other reserves				
<b>Balance December 31, 2006</b>	<b>1 035</b>	<b>-16</b>	<b>767</b>	<b>-119</b>	<b>648</b>	<b>706</b>	<b>2 373</b>	<b>60</b>	<b>2 433</b>
<b>Total recognized income and expense for the period</b>				<b>-6</b>	<b>-6</b>	<b>-5</b>	<b>-11</b>	<b>8</b>	<b>-3</b>
Dividends to third parties					-		-	-9	-9
Share capital reduction	-57				-		-57		-57
<i>Employee share &amp; option scheme:</i>									
Effect of employee services					-	7	7		7
Equity share options issued						4	4		4
Treasury share transactions					-	-3	-3		-3
<b>Balance December 31, 2007</b>	<b>978</b>	<b>-16</b>	<b>767</b>	<b>-125</b>	<b>642</b>	<b>709</b>	<b>2 313</b>	<b>59</b>	<b>2 372</b>
<b>Total recognized income and expense for the period</b>				<b>-278</b>	<b>-278</b>	<b>-45</b>	<b>-323</b>	<b>-4</b>	<b>-327</b>
Dividends to third parties					-		-	-5	-5
Share capital reduction	-57				-		-57		-57
<i>Employee share &amp; option scheme:</i>									
Effect of employee services					-	10	10		10
Treasury share transactions		1			-	-7	-6		-6
<b>Balance December 31, 2008</b>	<b>921</b>	<b>-15</b>	<b>767</b>	<b>-403</b>	<b>364</b>	<b>667</b>	<b>1 937</b>	<b>50</b>	<b>1 987</b>

In 2008 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.

### 30. 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 December 31, 2008 and 2007, respectively.

<b>Financial instruments</b> <i>CHF mn</i>	<i>Contract or underlying principal amount</i>		<i>Positive fair values</i>		<i>Negative fair values</i>	
	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
<b>Currency related instruments</b>						
Forward foreign exchange rate contracts	93	102	2	1	-1	-
<b>Total financial instruments</b>	<b>93</b>	<b>102</b>	<b>2</b>	<b>1</b>	<b>-1</b>	<b>-</b>

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

<b>Financial instruments by maturity</b> <i>CHF mn</i>	<i>1 – 12 months</i>		<i>1 – 5 years</i>		<i>Total</i>	
	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
<b>Currency related instruments</b>						
Forward foreign exchange rate contracts	93	102	-	-	93	102
<b>Total financial instruments</b>	<b>93</b>	<b>102</b>	<b>-</b>	<b>-</b>	<b>93</b>	<b>102</b>

**FINANCIAL INSTRUMENTS (CONTINUED)**

<b>Financial instruments by currency</b>	<b>31.12.2008</b>	31.12.2007
<i>Forward foreign exchange rate contracts</i>		
<i>CHF mn</i>		
USD	39	72
EUR	45	1
BRL		29
JPY	9	
<b>Total financial instruments</b>	<b>93</b>	<b>102</b>
<b>Financial instruments effective for hedge-accounting purposes</b>	<b>31.12.2008</b>	31.12.2007
<i>CHF mn</i>		
<b>Fair value of hedges of net investments in foreign entities:</b>		
<b>Contracts with positive fair values</b>	–	–
<b>Contracts with negative fair values</b>	–	–
Borrowings denominated in foreign currencies	–1 027	–994

On April 6, 2006, Clariant issued a bond in the amount of EUR 600 million, denominated in euros (see Note 15). The bond was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange gain as at December 31, 2008 in the amount of CHF 100 million (2007: CHF 31 million loss) resulting from the translation of the bond into Swiss francs was recognized in the cumulative translation reserves in Shareholders' equity.

On July 17, 2008 Clariant held a Certificate of Indebtedness in the amount of EUR 100 million, denominated in euros (see Note 15). The Certificate of Indebtedness was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange gain as at December 31, 2008 in the amount of CHF 11 million resulting from the translation of the Certificate of Indebtedness into Swiss francs was recognized in the cumulative translation reserves in Shareholders' equity.

<b>Volumes of securitization of trade receivables</b>	<b>31.12.2008</b>	31.12.2007
<i>CHF mn</i>		
Trade receivables denominated in US dollars	50	73
<b>Total</b>	<b>50</b>	<b>73</b>
Related liability in the balance sheet denominated in US dollars	50	73
<b>Total</b>	<b>50</b>	<b>73</b>

**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.

### 31. EMPLOYEE PARTICIPATION PLANS

Clariant maintains an 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 registered shares in Clariant Ltd. (one share per option) at a predetermined strike price. They become vested and are exercisable after three years and expire after ten years.

In April 2008, Clariant established a new stock option plan for members of management and the Board of Directors. The options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd (one share per option) at a predetermined strike price. Alternatively, the options can be sold at the Swiss Exchange. They become vested and are exercisable after two years and expire after five years. The fair value of the stock options at grant date was determined using a share price of CHF 8.58 and an exercise price of CHF 12.50. The expected volatility

was determined at 46.4 percent, based on market assumptions. Assumed dividends range between CHF 0.25 and CHF 0.30 for later periods. The risk-free interest rate was determined at 3.06 percent. The Trinomial Model was used to determine the fair values.

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 for shares and the vesting period of two years for options. 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 November 7, 2002 have not been restated.

During 2008, CHF 10 million (2007: CHF 7 million) for equity-settled share based payments and less than CHF 1 million (2007: less than CHF 1 million) for cash-settled share based payments were charged to the income statement.

As of December 31, 2008 the total carrying value of liabilities arising from share-based payments is CHF 13 million (2007: CHF 15 million). Thereof CHF 12 million (2007: CHF 14 million) was recognized in equity for equity-settled share-based payments and CHF 1 million (2007: CHF 1 million) in non-current liabilities for cash-settled share-based payments.

#### Options for Board of Directors (non-executive members)<sup>1</sup>

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2008	Number 31.12.2007
1998	1998	2001	2008	53.80	56.76		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
2008	2008	2010	2013	12.50	8.58	260 000	–
<b>Total</b>						<b>276 647</b>	<b>26 784</b>

<sup>1</sup> Past and current members.

**EMPLOYEE PARTICIPATION PLANS (CONTINUED)****Options for senior members of Management and Board of Management<sup>1</sup>**

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2008	Number 31.12.2007
1997	1998	2001	2008	25.50	68.97		127 783
1997	1998	2001	2008	37.50	73.06		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	87 352
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	53 479	53 479
2004	2005	2008	2015	19.85	19.85	146 237	146 237
<b>Total</b>						<b>974 957</b>	<b>1 269 741</b>

**Options for members of Management and Board of Management<sup>1</sup>**

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2008	Number 31.12.2007
2008	2008	2010	2013	12.50	8.58	2 431 000	–
<b>Total</b>						<b>2 431 000</b>	<b>–</b>

<sup>1</sup> Past and current members.

As per December 31, 2008, the weighted average remaining contractual life of the share options was 3.6 years.

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

Base year	Granted	Vesting in	Share price at grant date	Number 31.12.2008	Number 31.12.2007
2005	2005	2008	19.85		10 077
2006	2006	2009	19.60	6 378	16 158
2007	2007	2010	19.15	10 443	22 192
2008	2008	2011	9.45	6 615	
<b>Total</b>				<b>23 436</b>	<b>48 427</b>

**Shares for members of Management and the Board of Management**

Base year	Granted	Vesting in	Share price at grant date	Number 31.12.2008	Number 31.12.2007
2004	2005	2008	19.85		393 397
2005	2006	2009	19.60	247 047	285 555
2006	2007	2010	19.15	367 039	454 310
2007	2008	2011	9.45	472 979	
<b>Total</b>				<b>1 087 065</b>	<b>1 133 262</b>



	<b>Weighted average exercise price</b>	<b>Options 2008</b>	<b>Shares 2008</b>	<i>Weighted average exercise price</i>	<i>Options 2007</i>	<i>Shares 2007</i>
Shares/options outstanding at January 1	37.61	1 296 525	1 181 689	37.07	1 340 743	1 059 753
Granted		2 900 000	557 289			491 903
Exercised/distributed	10.03	-200 000	-584 726	15.03	-44 218	-351 241
Cancelled		-313 921	-43 751			-18 726
<b>Outstanding at December 31</b>	<b>19.64</b>	<b>3 682 604</b>	<b>1 110 501</b>	<b>37.61</b>	<b>1 296 525</b>	<b>1 181 689</b>
Exercisable at December 31	39.03	991 604		39.87	1 150 288	
Fair value of shares/options outstanding in CHF		4 800 743	7 917 872		1 279 331	12 443 145

The fair value of shares granted during 2008 is CHF 5 million (2007: CHF 9 million) calculated based on market value of shares at grant date.

The fair value of options granted during 2008 is CHF 7 million, calculated based on the trinomial model.

Additionally, 350 000 shares were granted in accordance with contractual agreements and will be charged to the income statement over the vesting period of five years. The fair value at the grant date was CHF 10.33 per share.

### 32. PERSONNEL EXPENSES

<i>CHF mn</i>	<b>2008</b>	<i>2007</i>
Wages and salaries	-1 326	-1 475
Social welfare costs	-315	-373
Shares and options granted to directors and employees	-11	-8
Pension costs – defined contribution plans	-33	-34
Pension costs – defined benefit plans	-70	-66
Other post-employment benefits	-4	-4
<b>Total</b>	<b>-1 759</b>	<b>-1 960</b>

Thereof the amount of CHF 0 million (2007: CHF 30 million) is reported under discontinued operations.

### 33. 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 7. 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 percent and 50 percent.

The second group of related parties is key management comprising the Board of Directors and the Board of Management. The information required by Art. 663b<sup>bis</sup> 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 125 to 128 of this report. 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 (2007: CHF 1 million), of which approximately half is charged back to the pension plans. The number of full-time employees corresponding to these are approximately 6 (2007: 6).

<b>Transactions with associates</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Income from the sale of goods to related parties	27	37
Income from the rendering of services to related parties	3	4
Expenses from the purchase of goods to related parties	-46	-27
Expenses from services rendered by related parties	-266	-255
<b>Payables and receivables with associates</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
<i>CHF mn</i>		
Receivables from related parties	5	8
Payables to related parties	42	45

<b>Transactions with Key Management</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Salaries and other short-term benefits	7	6
Termination benefits	3	4
Post-employment benefits	2	1
Share-based payments	3	2
<b>Total</b>	<b>15</b>	<b>13</b>

There are no outstanding loans by the Group to any members of the Board of Directors or Board of Management.

### 34. 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 Infracore companies.

<i>CHF mn</i>	<b>31.12.2008</b>	<b>31.12.2007</b>
2008		66
2009	53	48
2010	36	24
2011	22	16
2012	17	13
2013	15	
thereafter	24	37
<b>Total</b>	<b>167</b>	<b>204</b>
Guarantees in favor of third parties	77	63

Expenses for operating leases were CHF 71 million in 2008 (2007: CHF 86 million).

**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 75 million (2007: CHF 106 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 at the Zurich Chamber of Commerce, raising various claims under the purchase agreement in an amount of EUR 42 million. In January 2009, the claim was settled with an impact of CHF 9 million on the income statement. This settlement is fully recognized in the books in 2008.

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.

### 35. EXCHANGE RATES OF PRINCIPAL CURRENCIES

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

	31.12.2008	31.12.2007
1 USD	1.06	1.13
1 GBP	1.53	2.25
100 JPY	1.17	1.01
1 EUR	1.49	1.66

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

	2008	2007
1 USD	1.08	1.20
1 GBP	2.02	2.40
100 JPY	1.05	1.02
1 EUR	1.59	1.64

## 36. IMPORTANT SUBSIDIARIES

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
<b>Argentina</b>	Clariant (Argentina) SA, Lomas de Zamora, Buenos Aires	100.0		■	■	
<b>Australia</b>	Clariant (Australia) Pty. Ltd, Glen Waverley	100.0		■	■	
<b>Austria</b>	Clariant (Österreich) GmbH, Vienna	100.0		■	■	
<b>Bangladesh</b>	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
<b>Belgium</b>	Clariant Masterbatches Benelux SA, Louvain-La-Neuve	100.0		■	■	
	Clariant Distribution (Belgium) S.A. NV	100.0		■		
<b>Brazil</b>	Clariant S.A., São Paulo	100.0		■	■	
<b>Canada</b>	Clariant (Canada) Inc., St. Laurent, Québec	100.0		■	■	
<b>Chile</b>	Clariant Colorquímica (Chile) Ltda., Maipú-Santiago de Chile	100.0		■	■	
<b>China</b>	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		■	■	
<b>Colombia</b>	Clariant (Colombia) SA, Cota-Cundinamarca	100.0		■	■	
<b>Denmark</b>	Clariant (Danmark) A/S, Store Heddinge	100.0		■		
<b>Ecuador</b>	Clariant (Ecuador) S.A., Quito	100.0		■		
<b>Egypt</b>	Clariant (Egypt) SAE, Cairo	90.8		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
<b>Finland</b>	Clariant (Finland) Oy, Vantaa	100.0		■		
	Clariant Masterbatches (Finland) Oy, Vantaa	100.0		■	■	
<b>France</b>	Clariant Distribution (France), Nanterre	100.0		■		
	Clariant Masterbatches (France), Nanterre	100.0		■	■	
	Clariant Masterbatches Huningue, Nanterre	100.0		■	■	■
	Clariant Production (France), Nanterre	100.0			■	■
<b>Germany</b>	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		■		
<b>Great Britain</b>	Clariant Distribution UK Limited, Horsforth/Leeds	100.0		■		
	Clariant Production UK Ltd, Horsforth/Leeds	100.0			■	■
<b>Greece</b>	Clariant (Hellas) SA, Lykovrisi	100.0		■		
<b>Guatemala</b>	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
<b>Honduras</b>	Clariant Honduras S.A. de C.V., San Pedro Sula	100.0		■	■	
<b>India</b>	Clariant Chemicals (India) Ltd, Mumbai	63.4		■	■	■
<b>Indonesia</b>	PT Clariant Indonesia, Tangerang	100.0		■	■	
<b>Ireland</b>	Clariant Masterbatches Ireland Limited, Naas	100.0		■	■	
<b>Italy</b>	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			■	
<b>Japan</b>	Clariant (Japan) K.K., Tokyo	100.0		■	■	■

<b>Country</b>	<b>Company name</b>	<b>Participation %</b>	<b>Holding/ Finance/Service</b>	<b>Sales</b>	<b>Production</b>	<b>Research</b>
<b>Korea</b>	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Masterbatches (Korea) Ltd, Kyungsangnamdo	100.0		■	■	
	Clariant Pigments (Korea) Ltd, Ulsan-Si	99.8		■	■	
<b>Luxemburg</b>	Clariant Finance (Luxembourg) S.A.	100.0	■			
<b>Malaysia</b>	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		■		
<b>Mexico</b>	Clariant (Mexico) S.A. de C.V., Naucalpan de Juárez	100.0		■	■	
<b>Morocco</b>	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
<b>Netherlands</b>	Clariant Distributie (Nederland) BV, Diemen	100.0		■		
<b>New Zealand</b>	Clariant (New Zealand) Ltd, Albany-Auckland	100.0		■	■	
<b>Norway</b>	Clariant Oil Services Scandinavia AS, Bergen	100.0		■		■
<b>Pakistan</b>	Clariant Pakistan Ltd, Karachi-Korangi	75.0		■	■	
<b>Panama</b>	Clariant Trading (Panamá), SA, Panamá	100.0		■		
<b>Peru</b>	Clariant (Perú) SA, Lima	91.4		■	■	
<b>Philippines</b>	Clariant (Philippines) Corp., Makati City, Manila	100.0		■		
<b>Poland</b>	COLEX Spolka z o.o., Zgierz	88.8		■	■	
<b>Russia</b>	Clariant (RUS) LLC, Moscow	100.0		■		
<b>Saudi Arabia</b>	Clariant Masterbatches (Saudi Arabia) Ltd, Riyadh	93.0		■	■	
<b>Singapore</b>	Clariant (Singapore) Pte. Ltd, Singapore	100.0		■	■	
<b>South Africa</b>	Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg	100.0		■	■	
<b>Spain</b>	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		■	■	
<b>Sweden</b>	Clariant (Sverige) AB, Göteborg	100.0		■		
	Clariant Masterbatches Norden AB, Malmö	100.0		■	■	■
<b>Switzerland</b>	Clariant Export AG, Muttenz	100.0		■		
	Clariant International AG, Muttenz	100.0	■			
	Clariant Produkte (Schweiz) AG, Muttenz	100.0			■	■
<b>Taiwan</b>	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
<b>Thailand</b>	Clariant (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Chonburi	100.0		■	■	
<b>Turkey</b>	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
<b>UAE</b>	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
<b>Uruguay</b>	Clariant (Uruguay) SA, Montevideo	100.0		■		
<b>USA</b>	Clariant Corporation, Charlotte, NC	100.0		■	■	■
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL	100.0		■	■	■
<b>Venezuela</b>	Clariant Venezuela S.A., Maracay	100.0		■	■	
<b>Vietnam</b>	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0			■	

### ***37. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE***

On January 27, 2009, Clariant announced measures to further adapt its structures to the economic situation by decisively downsizing the Group and reducing expenditure, in particular sales, general and administrative costs (SG&A). The Group plans to substantially decrease personnel costs and as a first step reduce by a thousand the number of positions, mainly in the SG&A area. The resulting costs will be accounted for from 2009 onwards in line with the requirements of IFRS and are part of the restructuring measures announced for 2009.

## **REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ**

### REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Clariant Ltd, which comprise the balance sheet, income statement, statement of cash flows, statement of recognized income and expense and notes (pages 52 to 116), for the year ended 31 December 2008.

#### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2008 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.

#### REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

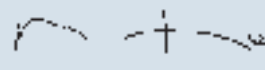
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Daniel Suter  
Audit expert



Dr. Matthias Jeger  
Audit expert  
Auditor in charge

Basel, 12 February 2009

## REVIEW OF TRENDS

### FIVE-YEAR GROUP OVERVIEW

<b>Five-year group overview 2004–2008</b>		<b>2008</b>	2007	2006	2005 (restated)	2005	2004
<b>Divisional sales</b>	CHF mn	<b>8 189</b>	<b>8 660</b>	<b>8 211</b>	<b>7 800</b>	<b>8 261</b>	<b>8 772</b>
Change relative to preceding year							
in Swiss francs	%	–5	5	5		–6	–0
in local currency	%	1	4	3		–8	2
<b>Group sales<sup>1</sup></b>	CHF mn	<b>8 071</b>	<b>8 533</b>	<b>8 100</b>	<b>7 728</b>	<b>8 181</b>	<b>8 530</b>
Change relative to preceding year							
in Swiss francs	%	–5	5	5		–4	–
in local currency	%	1	4	3		–6	2
<b>Operating income before exceptionals</b>	CHF mn	<b>530</b>	<b>539</b>	<b>592</b>	<b>533</b>	<b>516</b>	<b>636</b>
Change relative to preceding year	%	–2	–9	11		–19	4
as a % of sales		6.6	6.3	7.3		6.3	7.5
<b>Operating income</b>	CHF mn	<b>229</b>	<b>278</b>	<b>385</b>	<b>448</b>	<b>368</b>	<b>533</b>
Change relative to preceding year	%	–18	–28	–14		–31	–5
as a % of sales		2.8	3.3	4.8		4.5	6.2
<b>EBITDA</b>	CHF mn	<b>691</b>	<b>628</b>	<b>798</b>	<b>714</b>	<b>710</b>	<b>918</b>
Change relative to preceding year	%	10	–21	12		–23	–18
as a % of sales		8.6	7.4	9.9		8.7	10.8
<b>Net loss/income</b>	CHF mn	<b>–37</b>	<b>5</b>	<b>–78</b>	<b>192</b>	<b>192</b>	<b>159</b>
Change relative to preceding year	%	–840	–106	–141		21	–8
as a % of sales		–0.5	0.1	–1.0		2.3	1.9
<b>Investment in property, plant and equipment</b>	CHF mn	<b>270</b>	<b>306</b>	<b>325</b>	<b>321</b>	<b>348</b>	<b>289</b>
Change relative to preceding year	%	–12	–6	1		20	–4
as a % of sales		3	4	4		4	3
<b>Personnel costs</b>	CHF mn	<b>1 759</b>	<b>1 930</b>	<b>1 817</b>	<b>1 825</b>	<b>1 952</b>	<b>1 979</b>
Change relative to preceding year	%	–9	6	–		–1	–1
as a % of sales		22	23	22		24	23
Employees at year-end	number	20 102	20 931	21 748	22 132	23 383	24 769
Change relative to preceding year	%	–4	–4	–2		–6	–8

<sup>1</sup> Incl. trading.



<b>Trend in Group sales by division</b>	<b>2008</b>		2007		2006 (restated)		2006		2005 (restated)		2005		2004	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 020	25	2 332	27	2 303	29	2 303	29	2 192	28	2 192	27	2 203	26
Pigments & Additives	1 948	24	2 076	24	1 981	25	1 981	25	1 879	24	1 879	23	1 828	21
Functional Chemicals	2 825	35	2 745	33	2 562	32	2 281	28	2 083	27	2 083	25	1 977	23
Life Science Chemicals			–	–	–	–	281	3	430	6	883	11	1 414	17
Masterbatches	1 278	16	1 380	16	1 254	15	1 254	15	1 144	15	1 144	14	1 108	13
<b>Total divisions</b>	<b>8 071</b>	<b>100</b>	<b>8 533</b>	<b>100</b>	<b>8 100</b>	<b>100</b>	<b>8 100</b>	<b>100</b>	<b>7 728</b>	<b>100</b>	<b>8 181</b>	<b>100</b>	<b>8 530</b>	<b>100</b>

<b>Trend in Group sales by region</b>	<b>2008</b>		2007		2006		2005 (restated)		2005		2004	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	3 861	48	4 155	49	3 939	49	3 797	49	4 111	50	4 214	49
The Americas	2 255	28	2 364	28	2 292	28	2 172	28	2 269	28	2 257	27
Asia / Australia / Africa	1 955	24	2 014	23	1 869	23	1 759	23	1 801	22	2 059	24
<b>Total</b>	<b>8 071</b>	<b>100</b>	<b>8 533</b>	<b>100</b>	<b>8 100</b>	<b>100</b>	<b>7 728</b>	<b>100</b>	<b>8 181</b>	<b>100</b>	<b>8 530</b>	<b>100</b>

**FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ**  
**CLARIANT LTD BALANCE SHEETS** at December 31, 2008 and 2007

ASSETS	31.12.2008		31.12.2007	
	CHF	%	CHF	%
<b>Non-current assets</b>				
Shareholdings in Group companies	1 769 135 806		1 873 065 710	
Loans to Group companies	490 618 010		468 945 607	
Intangible assets	2 406 230		1 264 057	
<b>Total non-current assets</b>	<b>2 262 160 046</b>	88.8	<b>2 343 275 374</b>	74.1
<b>Current assets</b>				
Receivables from Group companies	156 973 090		436 599 271	
Other receivables	4 294 979		12 824 887	
Accrued income	578 273		1 467 818	
Marketable securities	39 618 242		37 135 846	
Cash and cash equivalents	83 946 527		332 950 259	
<b>Total current assets</b>	<b>285 411 111</b>	11.2	<b>820 978 081</b>	25.9
<b>Total assets</b>	<b>2 547 571 157</b>	100.0	<b>3 164 253 455</b>	100.0
<b>EQUITY AND LIABILITIES</b>				
	31.12.2008		31.12.2007	
	CHF	%	CHF	%
<b>Total share capital</b>	<b>920 640 000</b>		<b>978 180 000</b>	
<b>Reserves</b>				
General reserve	648 346 529		646 595 631	
Reserve for treasury shares	78 858 425		90 588 025	
Free reserves	593 652 505		596 236 598	
<b>Total reserves</b>	<b>1 320 857 459</b>		<b>1 333 420 254</b>	
<b>Accumulated losses</b>				
Loss for the financial year	-311 460 232		-14 313 693	
<b>Total accumulated losses</b>	<b>-311 460 232</b>		<b>-14 313 693</b>	
<b>Total equity</b>	<b>1 930 037 227</b>	75.8	<b>2 297 286 561</b>	72.6
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Straight bonds	250 000 000		250 000 000	
Certificate of Indebtedness	160 400 000		-	
Loans from Group companies	47 801 427		5 625 500	
<b>Total non-current liabilities</b>	<b>458 201 427</b>	18.0	<b>255 625 500</b>	8.1
<b>Current liabilities</b>				
Provisions	3 135 359		3 323 702	
Liabilities to Group companies	148 940 491		201 290 104	
Other liabilities	726 349		387 413 263	
Accrued expenses	6 530 304		19 314 325	
<b>Total current liabilities</b>	<b>159 332 503</b>	6.2	<b>611 341 394</b>	19.3
<b>Total liabilities</b>	<b>617 533 930</b>	24.2	<b>866 966 894</b>	27.4
<b>Total equity and liabilities</b>	<b>2 547 571 157</b>	100.0	<b>3 164 253 455</b>	100.0

**CLARIANT LTD INCOME STATEMENTS** for the years ended December 31, 2008 and 2007

	<b>31.12.2008</b>	31.12.2007
	CHF	CHF
<b>Income</b>		
Income from financial assets	352 454 653	231 505 063
Income from cash, marketable securities and short-term deposits	3 645 019	13 390 825
Financial income	–	9 522 951
Other income	22 779 484	42 400 884
<b>Total income</b>	<b>378 879 156</b>	<b>296 819 723</b>
<b>Expenses</b>		
Financial expenses	90 390 309	59 124 039
Administrative expenses	2 833 848	2 924 447
Depreciation of financial assets	551 000 000	199 834 564
Other expenses (including taxes)	46 115 231	49 250 366
<b>Total expenses</b>	<b>690 339 388</b>	<b>311 133 416</b>
<b>Loss for the financial year</b>	<b>–311 460 232</b>	<b>–14 313 693</b>

## **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 551 million (prior year CHF 200 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 114 and 115 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 27 million (prior year CHF 37 million) (see also note 6).

### **4. REPAYMENT OF SHARE CAPITAL**

On 10 April 2008 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 920 640 000.

## 5. SHARE CAPITAL

	<b>31.12.2008</b>	31.12.2007
Number of registered shares each with a par value of CHF 4.00 (2007: CHF 4.25)	230 160 000	230 160 000
In CHF	920 640 000	978 180 000
<b>Conditional Capital</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Number of registered shares each with a par value of CHF 4.00 (2007: CHF 4.25)	8 000 000	8 000 000
In CHF	32 000 000	34 000 000

## 6. TREASURY SHARES (NUMBER WITH A PAR VALUE OF CHF 4.00 EACH (2007: CHF 4.25))

	<b>2008</b>	2007
Holdings on 1 January	3 526 671	3 247 278
Shares bought at market value	657 500	1 470 000
Shares sold at market value	-105 009	-880 000
Shares to employees	-252 562	-310 607
<b>Holdings on 31 December</b>	<b>3 826 600</b>	<b>3 526 671</b>

The average price of shares bought in 2008 was CHF 7.76 (2007: CHF 16.71).

The average price of shares sold in 2008 was CHF 8.83 (2007: CHF 17.95).

## 7. RECONCILIATION OF EQUITY

<i>CHF</i>	<i>Share capital</i>	<i>General reserve</i>	<i>Reserve for treasury shares</i>	<i>Free reserves</i>	<i>Net loss</i>	<i>Total</i>
<b>Balance December 31, 2007</b>	<b>978 180 000</b>	<b>646 595 631</b>	<b>90 588 025</b>	<b>596 236 598</b>	<b>-14 313 693</b>	<b>2 297 286 561</b>
Gain on merger of subsidiary <sup>1</sup>		1 750 898				1 750 898
Treasury share transactions			-11 729 600	11 729 600		-
Appropriation of profit/loss carried forward to reserves				-14 313 693	14 313 693	-
Repayment of share capital	-57 540 000					-57 540 000
Loss for the financial year					-311 460 232	-311 460 232
<b>Balance December 31, 2008</b>	<b>920 640 000</b>	<b>648 346 529</b>	<b>78 858 425</b>	<b>593 652 505</b>	<b>-311 460 232</b>	<b>1 930 037 227</b>

<sup>1</sup> Clariant Finanz Ltd., Muttens, was merged with Clariant Ltd, Muttens, as per October 1, 2008. Clariant Finanz Ltd. was deleted from the commercial register. Prior to the merger Clariant Finanz Ltd. was a 100 percent-subsidiary of Clariant Ltd and had no significant business activities. Consequently, the impact of this merger on the accounts of Clariant Ltd. was minimal. In the process of this merger assets in the amount of CHF 4.518 million and liabilities in the amount of CHF 2.667 million were transferred from Clariant Finanz Ltd. to Clariant Ltd.

## 8. STRAIGHT BONDS AND CERTIFICATE OF INDEBTEDNESS

<i>CHF thousand</i>	<i>Interest rate</i>	<i>Term</i>	<b>Amount 31.12.2008</b>	<i>Amount 31.12.2007</i>
Straight bond	4.250	2000–2008	–	384 040
Straight bond	3.125	2007–2012	250 000	250 000
Certificate of Indebtedness	6.220	2008–2011	32 080	–
Certificate of Indebtedness	6.485	2008–2011	128 320	–
<b>Total</b>			<b>410 400</b>	<b>634 040</b>

In March 2008, a CHF 384 million bond was paid back on expiry. At the beginning of July, Clariant Ltd issued a Certificate of Indebtedness in the amount of EUR 100 million. This instrument was issued in two parts: A part of EUR 20 million with a fixed interest rate of 6.22 percent and a second part of EUR 80 million with a floating interest rate of 6.485 percent as at December 31, 2008. The Certificate of Indebtedness was taken on the books by eight major European banks and will expire in October 2011.

## 9. GENERAL RESERVES

The general reserve must be at least 20 percent 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

<i>CHF mn</i>	<b>Outstanding liabilities 31.12.2008</b>	<i>Outstanding liabilities 31.12.2007</i>
Outstanding liabilities as guarantees in favor of Group companies	1 016	1 142
Outstanding liabilities as guarantees in favor of third parties	22	25

## 12. EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT

### 1. BOARD OF DIRECTORS

#### Emoluments to members of the Board of Directors

Name	Member of the Board of Directors	Cash compensation		Others	Cash amount 2008	Cash amount 2007
		Honorarium in CHF	Committee fee in CHF <sup>3</sup>	(social insurance) in CHF		
	Membership in 2008				in CHF	in CHF
Jürg Witmer <sup>1</sup>	full year	387 500	55 000	17 231	459 731	36 527
Rudolf Wehrli <sup>1</sup>	full year	200 000	60 000	10 842	270 842	26 528
Peter Isler	full year	87 500	28 750	6 651	122 901	69 594
Peter Chen	full year	87 500	37 500	5 500	130 500	61 548
Klaus Jenny <sup>1</sup>	full year	200 000	91 250	10 643	301 893	69 772
Dominik Koechlin <sup>4</sup>	new	75 000	15 000	3 666	93 666	–
Carlo G. Soave <sup>4</sup>	new	75 000	15 000	3 666	93 666	–
Hariolf Kottmann <sup>2,4</sup>	new	50 000	10 000	3 666	63 666	–
Tony Reis <sup>4</sup>	resigned	37 500	–	3 363	40 863	81 251
Roland Lösner <sup>4</sup>	resigned	166 666	–	12 498	179 164	420 868
Kajo Neukirchen <sup>4</sup>	resigned	50 000	5 000	6 233	61 233	58 617
<b>Total</b>		<b>1 416 666</b>	<b>317 500</b>	<b>83 959</b>	<b>1 818 125</b>	<b>824 705</b>

<sup>1</sup> Change of function as per April 1, 2008.

<sup>2</sup> After taking over the function as CEO, no further Board of Directors compensations will be granted.

<sup>3</sup> Including attendance fee until March 2008.

<sup>4</sup> Change of membership at Annual Shareholder Meeting on April 10, 2008.

Name	Value of the shares/options <sup>5</sup> granted in 2008 in CHF	Value of the shares granted in 2007 in CHF
Jürg Witmer	74 364	11 456
Rudolf Wehrli	43 431	11 456
Peter Isler	54 356	52 432
Peter Chen	44 638	27 435
Klaus Jenny	69 129	44 102
Dominik Koechlin	15 467	–
Carlo G. Soave	15 467	–
Hariolf Kottmann	15 467	–
Tony Reis	107 294	84 382
Roland Lösner	93 524	52 782
Kajo Neukirchen	54 167	48 612
<b>Total</b>	<b>587 304</b>	<b>332 657</b>

<sup>5</sup> Options with a Value at Grant of CHF 2.32 (December 31, 2008: Value: CHF 1.49).

**EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT (CONTINUED)****Shares held**

<i>Name</i>	<b>Number of shares granted</b>	<i>Number of shares granted</i>	<b>Number of shares within vesting period</b>	<i>Number of shares within vesting period</i>	<b>Number of privately held shares</b>	<i>Number of privately held shares</i>
	<b>2008</b>	<i>2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Jürg Witmer	1 323	1 305	2 628	1 305	25 000	25 000
Rudolf Wehrli	1 323	1 305	2 628	1 305	5 000	5 000
Peter Isler	1 323	2 611	6 485	7 681	11 746	9 227
Peter Chen	1 323	2 611	5 210	3 887	200	200
Klaus Jenny	1 323	2 611	6 485	6 422	21 260	20 000
Dominik Koechlin	–	–	–	–	10 000	–
Carlo G. Soave	–	–	–	–	15 100	–
Hariolf Kottmann	–	–	–	–	10 000	–
Tony Reis	3 969	3 916	–	11 522	no data	8 508
Roland Lösser	–	5 222	–	8 624	no data	22 173
Kajo Neukirchen	–	2 611	–	7 681	no data	3 227
<b>Total</b>	<b>10 584</b>	<b>22 192</b>	<b>23 436</b>	<b>48 427</b>	<b>98 306</b>	<b>93 335</b>

**Options held**

<i>Name</i>	<b>Number of options granted</b>	<i>Number of options granted</i>	<b>Number of options within vesting period</b>	<i>Number of options within vesting period</i>	<b>Number of exercisable options</b>	<i>Number of exercisable options</i>
	<b>2008</b>	<i>2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Jürg Witmer	80 000	–	80 000	–	–	–
Rudolf Wehrli	40 000	–	40 000	–	–	–
Peter Isler	20 000	–	20 000	–	–	–
Peter Chen	20 000	–	20 000	–	–	–
Klaus Jenny	40 000	–	40 000	–	–	–
Dominik Koechlin	20 000	–	20 000	–	–	–
Carlo G. Soave	20 000	–	20 000	–	–	–
Hariolf Kottmann	20 000	–	20 000	–	–	–
Tony Reis	–	–	–	–	no data	1 701
Roland Lösser	–	–	–	101 352	no data	28 467
Kajo Neukirchen	–	–	–	–	no data	–
<b>Total</b>	<b>260 000</b>	<b>–</b>	<b>260 000</b>	<b>101 352</b>	<b>–</b>	<b>30 168</b>



## 2. BOARD OF MANAGEMENT

	<i>Hariolf Kottmann</i>	<i>Others</i>	<i>Jan Secher<sup>1</sup></i>	<b>Total 2008</b>	<i>Total 2007</i>
Base salary	250 000	2 660 333	637 500	3 547 833	4 053 583
Cash bonus	103 125	895 892	637 500	1 636 517	1 021 950
Share-based bonus:					
Value	180 775	655 918	574 457	1 411 150	1 386 440
Options:					
Value	41 760	458 871	464 000	964 631	31 250
Benefits	422 635	1 140 120	234 217	1 796 972	1 624 358
<b>Total</b>	<b>998 295</b>	<b>5 811 134</b>	<b>2 547 674</b>	<b>9 357 103</b>	<b>8 117 581</b>

<sup>1</sup> Payments due to early termination of the contract are disclosed separately in the text below.

During the year 2008, there were several personnel changes within the Executive Committee. The above table considers the term of office of the following members as follows:

- › Jan Secher (CEO) from January 1 to September 30, 2008
- › Johann Steiner from January 1 to October 31, 2008
- › Andy Piers from September 1 to December 31, 2008
- › Hariolf Kottmann (CEO) since October 1, 2008

Subsequent to the reduction of the Executive Committee, Andy Piers kept his function as Chief Technical Officer and Global Head of ESHA & Corporate Security.

The numbers above are reflected this year for the first time in accordance with IFRS, which influences the calculation of share-based compensations. 2007 numbers have been restated accordingly. All other elements remained unchanged.

Benefits include representation expenses, contributions to pension funds and social security as well as cost for schooling.

There have been no payments to leaving members of the Executive Committee except those based on valid claims under the respective employment contracts. These payments added up to CHF 3.2 million whereof CHF 2.5 million in favour of Jan Secher.

### Shares held

<i>Name</i>	<b>Number of shares granted</b>	<i>Number of shares granted</i>	<b>Number of shares within vesting period</b>	<i>Number of shares within vesting period</i>	<b>Number of privately held shares</b>	<i>Number of privately held shares</i>
	<b>for 2008</b>	<i>for 2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Jan Secher	–	33 280	–	33 290	no data	17 000
Hariolf Kottmann	17 500	–	–	–	10 000	–
Patrick Jany	14 765	9 048	15 934	9 503	17 228	14 611
Peter Brandenburg	10 872	10 715	25 914	15 199	1 330	1 330
Okke Koo	29 899	21 429	21 429	–	–	–
Dominik von Bertrab	9 423	11 350	28 961	20 513	4 000	4 000
Hartmut Wiezer	–	7 439	–	16 220	no data	–
Siegfried Fischer	29 567	10 360	25 152	17 789	16 416	13 419
Johann Steiner	–	4 524	–	4 405	no data	1 180
Andy Piers	10 067	–	–	–	–	–
<b>Total</b>	<b>122 093</b>	<b>108 145</b>	<b>117 390</b>	<b>116 919</b>	<b>48 974</b>	<b>51 540</b>

**EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT (CONTINUED)**

<b>Options held</b>						
<i>Name</i>	<b>Number of options granted</b>	<i>Number of options granted</i>	<b>Number of options within vesting period</b>	<i>Number of options within vesting period</i>	<b>Number of exercisable options</b>	<i>Number of exercisable options</i>
	<b>2008</b>	<i>2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>	<b>31.12.2008</b>	<i>31.12.2007</i>
Jan Secher	200 000	–	–	–	no data	–
Hariolf Kottmann	108 000	–	108 000	–	–	–
Patrick Jany	100 000	–	100 000	–	2 815	4 528
Peter Brandenburg	100 000	–	100 000	16 892	45 029	28 137
Okke Koo	–	–	–	–	–	–
Dominik von Bertrab	100 000	–	100 000	–	2 072	3 604
Hartmut Wiezer	–	–	–	–	no data	5 630
Siegfried Fischer	100 000	–	100 000	–	15 554	17 243
Johann Steiner	50 000	–	–	–	no data	–
Andy Piers	40 000	–	40 000	–	–	–
<b>Total</b>	<b>798 000</b>	<b>–</b>	<b>548 000</b>	<b>16 892</b>	<b>65 470</b>	<b>59 142</b>

**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 percent of total share capital.

**14. SHAREHOLDERS HOLDING THREE PERCENT OR MORE OF TOTAL CAPITAL**

Bestinver Gestión S.A., Madrid held a participation of 4.97 percent of the share capital at December 31, 2008 (December 31, 2007: 7.56 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

**15. RISK MANAGEMENT**

The Board of Directors and Group Management annually engage in a comprehensive risk assessment procedure, which includes the risks arising on the activities of Clariant Ltd. In the process, the enterprise risks and their developments are analyzed and it is ensured that measures to the effect of their containment are implemented. Particular attention is paid to the risks of financial reporting. A more detailed description of the risk assessment can be found in the notes of the consolidated financial statements in Note 2, "Enterprise risk management" on pages 66 to 67.

### **PROPOSED TRANSFER OF ACCUMULATED LOSSES**

The Board of Directors proposes to transfer the accumulated losses in the amount of CHF –311 460 232 against free reserves.

<b>Accumulated losses</b>	CHF
Loss for the financial year	–311 460 232
<b>Total accumulated losses</b>	<b>–311 460 232</b>

<b>Appropriation</b>	CHF
Transfer against free reserves	311 460 232
<b>Balance to be carried forward</b>	<b>–</b>

## **REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ**

### REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Clariant Ltd, which comprise the balance sheet, income statement and notes (pages 120 to 128), for the year ended 31 December 2008.

#### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

### REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

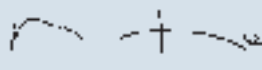
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed transfer of accumulated losses against free reserves complies 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  
Audit expert



Dr. Matthias Jeger  
Audit expert  
Auditor in charge

Basel, 12 February 2009

***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.

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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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