

## Consolidated financial statements of the Clariant Group

### Consolidated balance sheets

at 31 December 2005 and 2004

Assets	Notes <sup>1</sup>	2005		2004 <sup>2</sup>	
		CHF mn	%	CHF mn	%
<b>Non-current assets</b>					
Property, plant and equipment	4	2 605		2 440	
Intangible assets	5	418		405	
Investments in associates	6	282		277	
Financial assets	7	47		47	
Prepaid pension assets	15	77		49	
Deferred income tax assets	8	250		259	
<b>Total non-current assets</b>		<b>3 679</b>	<b>50.2</b>	<b>3 477</b>	<b>42.9</b>
<b>Current assets</b>					
Inventories	9	1 535		1 325	
Trade receivables	10	1 488		1 374	
Other current assets	11	344		419	
Cash and cash equivalents	12	223		1 477	
Current income tax receivables		55		28	
<b>Total current assets</b>		<b>3 645</b>	<b>49.8</b>	<b>4 623</b>	<b>57.1</b>
<b>Total assets</b>		<b>7 324</b>	<b>100.0</b>	<b>8 100</b>	<b>100.0</b>
<b>Equity and liabilities</b>					
	Notes <sup>1</sup>	2005		2004	
		CHF mn	%	CHF mn	%
<b>Capital and reserves attributable to the company's equity holders</b>					
Share capital	13	1 093		1 151	
Treasury shares (par value)	13	- 18		- 17	
Other reserves		663		529	
Retained earnings		793		595	
		<b>2 531</b>		<b>2 258</b>	
Minority interests		60		56	
<b>Total equity</b>		<b>2 591</b>	<b>35.4</b>	<b>2 314</b>	<b>28.6</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial debts	14	599		1 723	
Deferred income tax liabilities	8	390		388	
Retirement benefit obligations	15	507		479	
Provisions for non-current liabilities	16	289		319	
<b>Total non-current liabilities</b>		<b>1 785</b>	<b>24.4</b>	<b>2 909</b>	<b>35.9</b>
<b>Current liabilities</b>					
Trade payables	17	1 205		1 165	
Financial debts	18	1 137		1 172	
Current income tax liabilities		175		175	
Provisions for current liabilities	19	431		365	
<b>Total current liabilities</b>		<b>2 948</b>	<b>40.2</b>	<b>2 877</b>	<b>35.5</b>
<b>Total liabilities</b>		<b>4 733</b>	<b>64.6</b>	<b>5 786</b>	<b>71.4</b>
<b>Total equity and liabilities</b>		<b>7 324</b>	<b>100.0</b>	<b>8 100</b>	<b>100.0</b>

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

<sup>2</sup> Restated, refer to note 1.04 for details.

## Consolidated income statements

for the years ended 31 December 2005 and 2004

	Notes <sup>1</sup>	2005		2004 <sup>2</sup>	
		CHF mn	%	CHF mn	%
Sales	20, 21	8 181	100.0	8 530	100.0
Costs of goods sold		- 5 765		- 5 823	
<b>Gross profit</b>		<b>2 416</b>	<b>29.5</b>	<b>2 707</b>	<b>31.7</b>
Marketing and distribution		- 1 303		- 1 262	
Administration and general overhead costs		- 402		- 561	
Research and development		- 218		- 274	
Income from associates	6	23		26	
Gain/loss from the sale of discontinued operations	22	- 2		95	
Gain/loss from the sale of subsidiaries and associates	23	40		- 32	
Restructuring and impairment	27	- 186		- 136	
Amortization of goodwill	5	-		- 30	
<b>Operating income</b>		<b>368</b>	<b>4.5</b>	<b>533</b>	<b>6.2</b>
Interest expense		- 132		- 154	
Other financial income and expenses	25	34		- 79	
<b>Income before taxes</b>		<b>270</b>		<b>300</b>	
Taxes	8	- 78		- 141	
<b>Net income</b>		<b>192</b>	<b>2.3</b>	<b>159</b>	<b>1.9</b>
Attributable to:					
Equity holders of the company		184		152	
Minority interests		8		7	
<b>Net income</b>		<b>192</b>	<b>2.3</b>	<b>159</b>	<b>1.9</b>
<b>Earnings per share for profit attributable to the company's equity holders:</b>					
Earnings per share (CHF/share)	26	0.81		0.72	
Diluted earnings per share (CHF/share)	26	0.81		0.72	

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

<sup>2</sup> Restated, refer to note 1.04 for details.

## Consolidated statements of cash flows

for the years ended 31 December 2005 and 2004

	Notes <sup>1</sup>	2005 CHF mn	2004 <sup>2</sup> CHF mn
Net income		192	159
Depreciation of property, plant and equipment (PPE)	4	273	306
Impairment and reversal of impairment of PPE	4	59	39
Amortization of intangible assets (2004 including goodwill)	5	10	40
Changes in provisions and taxes		115	216
Interest paid		- 165	- 161
Income taxes paid		- 89	- 104
Loss (gain) before recycled exchange rate variances and taxes from the sale of discontinued operations	22	2	- 95
Loss (gain) before taxes from the sale of subsidiaries and associates	23	- 40	32
Other non-cash items		- 84	37
<b>Cash flow before changes in working capital</b>		<b>273</b>	<b>469</b>
Changes in inventories		- 137	15
Changes in trade receivables		- 6	52
Changes in trade payables		65	90
Changes in other current assets and liabilities		14	193
<b>Cash flow from operating activities</b>		<b>209</b>	<b>819</b>
Investments in PPE	4	- 348	- 289
Investments in financial assets and associates		- 4	-
Investments in intangible assets	5	- 5	- 8
Sale of PPE and intangible assets		10	10
Acquisition of companies, businesses and participations	24	- 33	- 24
Proceeds from the sale of discontinued operations	22	- 7	335
Proceeds from the sale of subsidiaries and associates	23	71	50
Dividends received		24	31
Interest received		42	23
<b>Cash flow from investing activities</b>		<b>- 250</b>	<b>128</b>
Proceeds from the issuance of share capital		-	877
Repayment of share capital		- 58	-
Treasury share transactions	13	- 8	16
Proceeds from financial debts		614	80
Repayments of financial debts		- 1 772	- 1 322
Dividends paid		- 5	- 37
<b>Cash flow from financing activities</b>		<b>- 1 229</b>	<b>- 386</b>
Currency translation effect on cash and cash equivalents		16	- 13
<b>Net change in cash and cash equivalents</b>		<b>- 1 254</b>	<b>548</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>1 477</b>	<b>929</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>223</b>	<b>1 477</b>

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

<sup>2</sup> Restated, refer to note 1.04 for details.

## Consolidated statement of changes in equity

for the years ended 31 December 2005 and 2004

CHF mn	Other reserves						Retained earnings	Total attributable to equity holders	Minority interests	Total equity
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves				
<b>Balance 31 December 2003</b>	<b>767</b>	<b>- 18</b>	<b>274</b>	<b>- 8</b>	<b>- 243</b>	<b>23</b>	<b>404</b>	<b>1 176</b>	<b>64</b>	<b>1 240</b>
Correction of errors and changes in accounting policy (notes 1.03/1.04)		- 1				-	47	46		46
<b>Restated balance 31 December 2003</b>	<b>767</b>	<b>- 19</b>	<b>274</b>	<b>- 8</b>	<b>- 243</b>	<b>23</b>	<b>451</b>	<b>1 222</b>	<b>64</b>	<b>1 286</b>
Cash flow hedges, net of tax:										
Net fair value gains (losses)				3		3		3		3
Net investment hedges					30	30		30		30
Exchange rate differences					- 20	- 20		- 20	- 2	- 22
<b>Net income recognized directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>10</b>	<b>13</b>	<b>0</b>	<b>13</b>	<b>- 2</b>	<b>11</b>
Net income						-	152	152	7	159
<b>Total recognized income and expense for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>10</b>	<b>13</b>	<b>152</b>	<b>165</b>	<b>5</b>	<b>170</b>
Purchase of minority shares						-			- 6	- 6
Dividends to third parties						-	- 30	- 30	- 7	- 37
Issuance of share capital	384		493			493		877		877
Treasury share transactions		2				-	14	16		16
Employee share and option scheme:										
value of employee services (note 29)						-	8	8		8
<b>Balance 31 December 2004</b>	<b>1 151</b>	<b>- 17</b>	<b>767</b>	<b>- 5</b>	<b>- 233</b>	<b>529</b>	<b>595</b>	<b>2 258</b>	<b>56</b>	<b>2 314</b>
Cash flow hedges, net of tax:										
Transfers to net income				5		5		5		5
Net investment hedges					- 35	- 35		- 35		- 35
Exchange rate differences					164	164		164	15	179
<b>Net income recognized directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>129</b>	<b>134</b>	<b>0</b>	<b>134</b>	<b>15</b>	<b>149</b>
Net income						-	184	184	8	192
<b>Total recognized income and expense for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>129</b>	<b>134</b>	<b>184</b>	<b>318</b>	<b>23</b>	<b>341</b>
Purchase of minority shares						-	14	14	- 14	0
Dividends to third parties						-			- 5	- 5
Repayment of share capital	- 58					-		- 58		- 58
Treasury share transactions		- 1				-	- 7	- 8		- 8
Employee share and option scheme:										
value of employee services (note 29)						-	7	7		7
<b>Balance 31 December 2005</b>	<b>1 093</b>	<b>- 18</b>	<b>767</b>	<b>0</b>	<b>- 104</b>	<b>663</b>	<b>793</b>	<b>2 531</b>	<b>60</b>	<b>2 591</b>

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

During 2004 Clariant issued new shares amounting to nominal capital of CHF 384 million (76 720 000 shares at CHF 5 per share). Transaction costs relating to the issuance of share capital in the amount of CHF 44 million were deducted from the share premium.

During 2005 Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 58 million.

# 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 adds value to their end products. The Group has manufacturing plants around the world and sells mainly in countries within Europe, the Americas and Asia.

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

The Board of Directors has approved the consolidated financial statements for issue on 24 February 2006.

### 1.02 Basis of preparation

The consolidated financial statements of the Clariant Group comply with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and with International Accounting Standards (IAS) and interpretations, formulated by its predecessor, the International Accounting Standards Committee (IASC), as well as with the following significant accounting policies. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments at fair value through profit or loss).

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

### 1.03 Errors

During 2005 it became evident that a change in the group structure had not been accounted for correctly from a tax point of view in 2002. A tax exemption which was considered to be of a permanent nature proved to be temporary only. As a result an additional CHF 9 million should have been reported as a deferred tax liability. In accordance with IAS 8 the correction was posted in the earliest period presented and as such is included in the correction of the opening amount of equity on 1 January 2004.

### 1.04 International Financial Reporting Standards effective in 2005

In 2004 the IASB published IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 4 'Insurance Contracts' and IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. In addition as part of the IASB improvement projects there were amendments and changes to IAS 36 'Impairment of Assets', IAS 38 'Intangible Assets', IAS 28 'Investments in Associates', IAS 1 'Presentation of Financial Statements', IAS 19 'Employee Benefits' and SIC 12 'Employee compensation plans' and further amendments to IAS 39 and IAS 21. The Group has adopted these new and improved standards effective 1 January 2005. This led to a number of reclassifications in the financial statement of the Group. The effects were the following:

- IFRS 2, Share-based payment: The adoption of IFRS 2 resulted in a change in the accounting policy for share-based payment. Until 31 December 2004, accruals for share-based payments were recorded as an expense in the income statement and a provision in the balance sheet. No expense was recognized for the provision of share options. The adoption of IFRS 2 led to the reclassification of CHF 39 million from provisions to equity and of CHF 9 million from deferred tax assets to equity, resulting in a total impact on equity of CHF 30 million as at 31 December 2004. Of this amount CHF 22 million refers to reporting periods up to 31 December 2003 and CHF 8 million to 2004. The adoption of IFRS 2 had a positive impact on the income statement of CHF 2 million in 2004.
- The adoption of IFRS 3, IAS 36 (revised) and IAS 38 (revised) resulted in a change in the accounting policy for goodwill. Until 31 December 2004 goodwill was amortized on a straight-line basis over a period ranging from ten to 20 years and assessed for an indication of impairment at each balance sheet date.
- IFRS 3, Business combinations: In accordance with the provisions of IFRS 3:
  - The Group ceases amortization of goodwill from 1 January 2005;
  - Accumulated amortization as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
  - From the year ended 31 December 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

- IAS 39, Financial Instruments: Recognition and Measurement (revised): The modification of IAS 39 also comprised a clearer focus with regard to the criteria for the de-recognition of financial instruments on the balance sheet. In view of the new guidance and as a result of an analysis performed related to the transfer of risk and rewards, trade receivables securitized in the United States and Germany in Asset Backed Securities (ABS) are now recognized in the balance sheet. This led to an increase of trade receivables and current financial debts of CHF 241 million in the balance sheet as at 31 December 2004.

- IAS 21, The Effects of changes in foreign exchange rates: At the end of 2005 the standard was amended to clarify that a loan between subsidiaries of the Group (sister to sister loans) may form part of the net investment in a foreign operation if settlement of the loan is neither planned nor likely to occur in the foreseeable future. In addition to that, the standard was amended with regard to exchange differences arising from the translation of a monetary item that is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. Such exchange rate differences are recognized in equity in the consolidated financial statements if the criteria for a monetary item to qualify as a net investment in a foreign operation are met.

The amendments to IAS 21 are effective for annual periods beginning on or after 1 January 2006. Earlier adoption is however encouraged and the Group has adopted these amendments as of 1 January 2005.

- IAS 28, Investments in Associates (revised): As a result of the revised standard, the accounting policies of the German Infraserv companies, which are valued at equity, were amended in order to be in line with all IFRS requirements. The financial statement was restated and resulted in a consolidated change in equity as at 1 January 2004 in the amount of CHF 39 million. Investments in associates increased in the amount of CHF 51 million. The major changes in valuations occurred in property, plant and equipment and provisions.
- IAS 1, Presentation of Financial Statements: The revised IAS 1 requires that minority interests are included in equity. The adoption of this requirement resulted in the reclassification of CHF 64 million to equity in the balance sheet as at 1 January 2004. In addition to this, IAS 1 (revised) now requires that net income in the income statement includes the minority shares. As a consequence of this the line Net income in the Cash flow statement now also includes the minority share of the net income.

- IFRS 5, Non-current assets held for sale and discontinued operations: On 1 January 2005 IFRS 5 became effective. The standard requires that non-current assets and associated liabilities be reported separately in the balance sheet, if management is demonstrably committed through a plan to sell them and if a sale is probable within the next twelve months.

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

The option in paragraphs 93A – 93D was not adopted by the Group. Had it been adopted this would have reduced equity in the amount of CHF 267 million as at 1 January 2004 and would have increased Operating income by CHF 9 million in 2005 and CHF 13 million in 2004. However, the Group has not yet decided whether it will adopt this option in 2006.

- SIC 12, Equity compensation plans (revised): Changes to the Standing Interpretations Committee SIC 12 came into force on 1 January 2005, which require the consolidation of equity compensation plans. Prior to this change, there was no requirement under IFRS to consolidate these plans. As a result, Clariant consolidated the Employee Participation Fund retrospectively with effect as of 1 January 2004. The consolidation reduced the average shares outstanding by 266 020 due to additional Clariant Ltd shares being held by the formerly unconsolidated Employee Participation Fund, which holds a fixed number of shares for employee compensation plans. Furthermore, the balance sheet item 'Other current assets' was reduced by the amount of CHF 5 million. The consolidation of the fund does not impact EPS to any significant extent, nor does it affect the Cash flow statement.

Overall these changes had the following impact on the balance sheet positions:

#### Opening balance as at 1 January 2004

- An increase in Investments in associates by CHF 51 million.
- A decrease in Deferred tax assets by CHF 21 million.
- An increase in Trade receivables by CHF 241 million.
- A decrease in Other current assets by CHF 5 million.
- An increase in Deferred income tax liabilities by CHF 15 million.
- A decrease in Provision for non-current liabilities by CHF 30 million.
- An increase in Current financial debts by CHF 241 million.
- A decrease in Current income tax liabilities by CHF 6 million.
- An increase in Total equity by CHF 110 million, thereof CHF 64 million as a result of the inclusion of Minority interests in the presentation of Total equity.

#### **Closing balance as at 31 December 2004**

- An increase in Deferred tax assets by CHF 1 million.
- A decrease in Financial fixed assets by CHF 49 million due to the separate presentation of Prepaid pension assets on the face of the balance sheet.
- A decrease in Provision for non-current liabilities by CHF 488 million of which CHF 479 million is due to the separate presentation of Retirement benefit obligations on the face of the balance sheet.
- An increase in Current income tax liabilities by CHF 28 million due to the separate presentation of Current income tax receivables on the face of the balance sheet.
- An increase in Net income by CHF 9 million, of which CHF 7 million is due to the inclusion of profit attributable to Minority interests and 2 million due to the adoption of IFRS 2.
- An increase in Total equity by CHF 112 million, thereof CHF 56 million as a result of the inclusion of Minority interests in the presentation of Total equity.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- IFRS 2: retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2004;
- IFRS 3: prospective application for reporting periods beginning after 31 March 2004.
- IFRS 5: prospective application for reporting periods beginning after 1 January 2005.

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

#### **1.05 International Financial Reporting Standards not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- IAS 39 (amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006): The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financials statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The Group believes that this amendment will not have any significant impact on the classification of financial instruments.

- IAS 39 (amendment), The Fair Value Option (effective from 1 January 2006): This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment will not have any significant impact on the classification of financial instruments.
- IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007): This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The Group assessed the impact of IFRS 7 and it was not adopted early because this standard regulates disclosures only. It would not have had any impact on the Group's accounting policies.

The above mentioned standards will be adopted as they become effective. Other new or revised standards will have no impact on the consolidated financial statements.

#### **1.06 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 as 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 (see note 1.11).

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

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

All associates use the same set of accounting policies (IFRS) as apply to the consolidated accounts of the Group.

#### 1.07 Principles and method of consolidation

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

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

#### 1.08 Reclassification

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

#### 1.09 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.

#### 1.10 Exchange rate differences

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

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

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

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

#### 1.11 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's guidelines:

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

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

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

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

#### **1.12 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. Each of those cash generating units represents the Group's investment in each business segment.

Trademarks and licenses are capitalized at historical cost and amortized on a straight-line basis to the income statement over their estimated useful lives, with a maximum of ten years.

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

#### **1.13 Impairment of assets**

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

An impairment loss is recognized as an expense in the income statement and is first allocated to the goodwill allocated to 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.

#### **1.14 Inventories**

Purchased goods are valued at acquisition cost, while self-manufactured products are valued at manufacturing costs including related production overhead costs. Borrowing costs are excluded. Inventory held at the balance sheet date is primarily valued at standard cost, which approximates to actual costs on a weighted average basis. This valuation method is also used for valuing the cost of goods sold in the income statement. Adjustments are made for inventories with a lower net realizable value. Unsaleable inventory is fully written off.

#### **1.15 Trade receivables**

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

#### **1.16 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.

#### **1.17 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 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 c) a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives in fair value hedges that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives in cash flow hedges are recognized as a hedging reserve in shareholders' equity. Where the forecast transaction results in the recognition of an asset or liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as revenue or expense in the same period in which the forecast transaction affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement when the committed or forecast transaction is ultimately recognized in the income statement. However, if a forecast or committed transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the income statement.

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

Financial instruments are used in the normal course of business to reduce risk arising from currency translation and interest rate or price movements. Clariant manages and records centrally its cover of various positions arising from existing assets and liabilities as well as future business transactions. To minimize counterparty risk, Clariant enters into financial instruments only with reputable international banks. The result of using financial instruments in Clariant's risk management program is permanently monitored, checked and communicated to Group management.

### 1.18 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, a lease 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.

### 1.19 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.

### 1.20 Deferred income tax

Deferred income tax is calculated using the comprehensive liability method. This results from 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 can be utilized.

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

### 1.22 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.

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.

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.

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

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

The charges for defined benefit plans, defined contribution plans and termination benefits are included in personnel expenses and reported in the income statement under the corresponding functions of the related employees and in expenses for restructuring and impairment.

### 1.23 Provisions

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

### 1.24 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.

### 1.25 Segment reporting

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

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

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

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

The **Pigments & Additives Division** develops and produces pigments for paints and lacquers, for plastics and for special applications. The product range includes high-performance pigments to meet the specific demands of the automotive and electronics industries. Printing pigments are supplied to the printing ink industry, and, increasingly, for non-impact printing, ink jet and laser printing. The core business also includes additives to improve heat resistance as well as light and weather resistance of plastics and paint. Halogen-free flame retardants are used in protective coatings, resins, thermoplastics and polyester fibers. The division's portfolio also includes high-quality waxes based on various materials.

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

The **Life Science Chemicals Division** has two Businesses. The Pharma Business is a service partner for the launch of new drugs and supplies customer-specific late stage intermediates with a high degree of synthesis, patented active ingredients and around 30 different generic active substances. Specialty Fine Chemicals covers a wide range of industrial applications with its silane derivatives, glyoxalic acid derivatives and diketene-based chemicals. It also supplies precursors and active ingredients for crop protection agents.

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

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

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

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

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

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

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

#### **1.26 Treasury shares**

Treasury shares are deducted from equity at their par value of CHF 4.75 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares are recorded in retained earnings.

#### **1.27 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.

#### **1.28 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.

The Group did not have any non-current assets (or disposal groups) held for sale at the balance sheet date.

#### **1.29 Share capital**

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

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

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

#### **1.30 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 12 months from the balance sheet date. This includes the portion of non-current debt that is due within 12 months. Financial debt is classified as a non-current liability where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **1.31 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 reevaluates this designation at every reporting date.

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

- **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money and goods directly to a debtor with no intention of trading the receivable. They are included in current assets in the balance sheet.
- **Held-to-maturity investments:** Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.
- **Available-for-sale financial assets:** Available-for-sale financial assets are non-derivatives that are either designated to the category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. There were no outstanding balances in the reporting periods presented.

Purchases and sales of investments are recognized on settlement date, that is the date on which the Group receives or delivers the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through the profit or loss' category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of 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.

### 1.32 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 costs which is usually fair value.

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

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

## 2. Financial risk management

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

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

### Market Risk

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

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

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

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

■ **Cash flow and fair value interest rate risk:** As the group has no significant interest-bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk mainly arises from financial debt. Financial debt issued at variable rates expose the group to cash flow interest rate risk. Financial debt issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain more than 50% of its borrowings in fixed rate instruments, provided the risk of rising interest rates is seen to be material. Downside interest views allow for a lower fixed rate portion of interest bearing financial debt. At year end, 43% of financial debt was at fixed rates.

### Credit risk

The group has no significant concentration of credit risk. It has a group credit risk policy in place to ensure that sales of products are made to customers after an appropriate credit limit allocation process. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The group has limits that restrict the amount of cash being held with financial institutions as well as the amount of open transactions based on their credit ratings.

### Liquidity risk

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

### Settlement risk

Settlement risk is the risk that a settlement in a transfer system does not take place as expected. It is part of operational risk that comprises all kinds of risks that arise from weak or inadequate internal processes within the Group, but also due to human and system-based failures.

The group manages settlement risk by relying on a safe and efficient payment system, by entering into financial transactions only with established counterparties which have integrity and are technically able to settle transactions, and by double checking the deal details (derivatives and loans) through the Treasury middle office.

**2.2 Fair value estimation.** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for 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 estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

### 3. Critical accounting estimates and judgments

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

#### 3.1 Critical accounting estimates and assumptions

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 note 1.12. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. In the same procedure the recoverable value of property, plant and equipment is also assessed according to the same rules. These calculations require the use of estimates, in particular in relation to the expected growth of sales, discount rates, the development of raw material prices and the success of the restructuring measures which are being implemented as part of the restructuring program (See notes 5 and 27).

##### (2) Environmental liabilities

The group is exposed to environmental regulations in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for environmental remediation. The group constantly monitors its sites to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The group recognizes liabilities for environmental remediation based on the latest assessment of the environmental situation of the individual sites and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts that were previously recorded, such differences will impact the income statement in the period in which such determination was made (See notes 16, 19 and 32).

##### (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 during the ordinary course of business. 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 will impact the income tax and deferred tax provision in the period in which such determination is made.

##### (4) Estimates for the accounting for employee benefits

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

#### 4. Property, plant and equipment

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total	Insured value at 31 December
<b>At 1 January 2004</b>							
Cost	637	2 392	5 132	577	163	8 901	
Accumulated depreciation	- 151	- 1 508	- 3 983	- 483	–	- 6 125	
<b>Net book value</b>	<b>486</b>	<b>884</b>	<b>1 149</b>	<b>94</b>	<b>163</b>	<b>2 776</b>	
Additions	3	25	95	18	148	289	
Reclassifications	- 1	27	102	10	- 138	0	
Disposals	- 27	- 73	- 78	- 12	- 23	- 213	
Depreciation		- 64	- 207	- 35		- 306	
Impairment		- 17	- 21	- 1		- 39	
Exchange rate differences	- 17	- 21	- 26	0	- 3	- 67	
<b>At 31 December 2004</b>	<b>444</b>	<b>761</b>	<b>1 014</b>	<b>74</b>	<b>147</b>	<b>2 440</b>	
Cost	593	2 274	4 893	508	147	8 415	
Accumulated depreciation	- 149	- 1 513	- 3 879	- 434	–	- 5 975	
<b>Net book value</b>	<b>444</b>	<b>761</b>	<b>1 014</b>	<b>74</b>	<b>147</b>	<b>2 440</b>	<b>9 862</b>
Additions	6	21	78	18	225	348	
Acquisitions	5		1			6	
Reclassifications	- 7	51	109	10	- 163	0	
Disposals	- 4	- 4	- 23	- 1	- 2	- 34	
Depreciation		- 61	- 182	- 30		- 273	
Impairment	- 5	- 17	- 54			- 76	
Reversal of impairment		1	16			17	
Exchange rate differences	24	76	62	7	8	177	
<b>At 31 December 2005</b>	<b>463</b>	<b>828</b>	<b>1 021</b>	<b>78</b>	<b>215</b>	<b>2 605</b>	
Cost	619	2 480	5 088	526	215	8 928	
Accumulated depreciation	- 156	- 1 652	- 4 067	- 448		- 6 323	
<b>Net book value</b>	<b>463</b>	<b>828</b>	<b>1 021</b>	<b>78</b>	<b>215</b>	<b>2 605</b>	<b>10 074</b>

The capitalized cost of PPE under finance lease contracts at 31 December 2005 amounts to CHF 27 million with a book value of CHF 25 million (2004: CHF 25 million and CHF 10 million respectively). Assets held under finance lease contract are mainly buildings. The corresponding liability related to finance lease contracts is disclosed in note 14.

As at 31 December 2005, commitments for the purchase of PPE totaled CHF 41 million (2004: CHF 45 million).

## 5. Intangible assets

CHF mn	Goodwill	Other	Total
<b>At 1 January 2004</b>			
Cost	2 807	129	2 936
Accumulated amortization	- 2 388	- 97	- 2 485
<b>Net book value</b>	<b>419</b>	<b>32</b>	<b>451</b>
Additions	17	8	25
Disposals	- 17	- 12	- 29
Amortization	- 30	- 10	- 40
Exchange rate differences	- 2		- 2
<b>At 31 December 2004</b>	<b>387</b>	<b>18</b>	<b>405</b>
Cost	2 807	113	2 920
Accumulated amortization	- 2 420	- 95	- 2 515
<b>Net book value</b>	<b>387</b>	<b>18</b>	<b>405</b>
Additions	12	5	17
Amortization		- 10	- 10
Exchange rate differences	4	2	6
<b>At 31 December 2005</b>	<b>403</b>	<b>15</b>	<b>418</b>
Cost <sup>1</sup>	403	122	525
Accumulated amortization		- 107	- 107
<b>Net book value</b>	<b>403</b>	<b>15</b>	<b>418</b>

<sup>1</sup> Accumulated amortization as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of goodwill.

The amount reported as goodwill is the result of a number of acquisitions in various divisions. The principal amount is the goodwill arising on the acquisition of BTP in 2000 with a carrying amount of CHF 330 million pertaining to the Textile, Leather & Paper Chemicals Division. All goodwill is tested annually for impairment. Other intangibles comprise patents, trademarks and software etc. Clariant does not have any internally generated intangible assets.

Additions to the carrying amount of goodwill in 2005 mainly include CHF 3 million of goodwill arising from the purchase of business activities (see note 24) and CHF 8 million from the purchase of minority shares of

Colour-Chem Ltd, Mumbai, a fully consolidated subsidiary of the Group. In addition to that, CHF 1 million of goodwill arising from the purchase of minority shares of various fully consolidated subsidiaries of the Group was recognized.

### Impairment test for goodwill.

Goodwill is allocated to the Group's cash generating units (CGUs). CGUs 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 segment.

Goodwill is allocated to the following CGUs:

CHF mn	31.12.2005	31.12.2004
Textiles	6	3
Leather	331	331
Pigments & Additives	29	24
Masterbatches	30	27
Functional Chemicals	7	2
<b>Net book value at 31 December 2005</b>	<b>403</b>	<b>387</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 five-year period. Cash flows beyond the five-year period are extrapolated. The main assumption used for cash flow projections were EBITDA in percent of sales and sales growth. The assumptions regarding these two variables are based on management's past experience and future expectations of business performance. The pre-tax discount rates used are based

on the Group's weighted average cost of capital adjusted for specific country and currency risks associated with the cash flow projections. The assumed discount rate was 9% for all cash generating units.

The most important part of goodwill is the amount of CHF 330 million remaining from the BTP acquisition in 2000. This goodwill is allocated to the CGU Leather. 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 in percent of sales will increase over present performance due to the optimization of structural costs. If the assumed growth rate was reduced by 1%, the carrying amount of the CGU Leather would exceed its recoverable amount by approximately CHF 19 million. The CGU Leather's recoverable amount and the carrying amount would be equal if the assumed rate of sales growth was reduced by 0.6%.

The CGU Masterbatches holds goodwill in the amount of CHF 30 million. For the impairment testing procedure it was assumed that the CGU

will achieve sales growth slightly above market growth for the planning period. It was also assumed the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented. The CGU Pigments & Additives holds goodwill in the amount of CHF 29 million. For the impairment testing procedure it was assumed that the CGU will achieve sales growth above market growth. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented.

## 6. Investments in associates

CHF mn	2005	2004
Beginning of the year	277	312
Effect of the restatement <sup>1</sup>		51
<b>Beginning of the year (restated)</b>	<b>277</b>	<b>363</b>
Acquisitions and disposals	3	- 69
Share of profit/loss	23	26
Dividends received	- 24	- 31
Reclassifications to other assets	- 2	- 5
Exchange rate differences	5	- 7
<b>End of the year</b>	<b>282</b>	<b>277</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

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

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/ Loss	% Interest held	
<b>2004</b>							
	Infraserv GmbH & Co. Höchst KG	Germany	1 088	557	1 399	45	32
	Infraserv GmbH & Co. Gendorf KG	Germany	183	83	291	9	50
	Infraserv GmbH & Co. Knapsack KG	Germany	170	64	233	6	21
	Others		95	50	373	4	-
<b>Total</b>			<b>1 536</b>	<b>754</b>	<b>2 296</b>	<b>64</b>	

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/ Loss	% Interest held	
<b>2005</b>							
	Infraserv GmbH & Co. Höchst KG	Germany	1 039	525	1 260	35	32
	Infraserv GmbH & Co. Gendorf KG	Germany	195	99	306	8	50
	Infraserv GmbH & Co. Knapsack KG	Germany	169	64	240	8	21
	Others		113	61	239	8	-
<b>Total</b>			<b>1 516</b>	<b>749</b>	<b>2 045</b>	<b>59</b>	

There were no unrecognized losses in the years 2005 and 2004. No accumulated unrecognized losses existed as at the Balance sheet date.

## 7. Financial assets

CHF mn	2005	2004 <sup>1</sup>
Beginning of the year	47	2
Exchange rate differences	- 1	- 1
Accrued interest	3	–
Reclassification from associates	–	5
Additions	–	41
Capital reduction and disposals	- 2	–
<b>End of the year</b>	<b>47</b>	<b>47</b>

Financial assets include the following:

CHF mn	31.12.2005	31.12.2004 <sup>1</sup>
Vendor loan note	44	41
Other investments	3	6
<b>Total</b>	<b>47</b>	<b>47</b>

<sup>1</sup> Restated. Pension plan asset is now shown separately on the face of the Balance sheet.

The Vendor loan note was accepted as part of the payment for the disposal of Electronic Materials in 2004.

The carrying amounts of the above assets are classified as follows:

CHF mn	31.12.2005	31.12.2004
Held to maturity	44	41
Designated at fair value through profit or loss	3	6
<b>Total</b>	<b>47</b>	<b>47</b>

## 8. Taxes

CHF mn	2005	2004 <sup>1</sup>
Current income taxes	- 68	- 139
Deferred income taxes	- 10	- 2
<b>Total</b>	<b>- 78</b>	<b>- 141</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

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

	2005		2004 <sup>1</sup>	
	CHF mn	%	CHF mn	%
<b>Income before tax</b>	<b>270</b>		<b>300</b>	
<b>Expected tax expense/rate<sup>2</sup></b>	<b>- 75</b>	<b>27.8</b>	<b>- 96</b>	<b>32.0</b>
Effect of taxes on items not tax-deductible	- 34	12.6	- 46	15.5
Effect of utilization and changes in recognition of tax losses and tax credits	40	- 14.8	15	- 5.1
Effect of tax losses and tax credits of current year not recognized	- 8	3.0	- 4	1.3
Effect of adjustments to current taxes due to prior periods	10	- 3.7	- 8	2.6
Effect of tax exempt income	2	- 0.8	14	- 4.7
Effect of other items	- 13	4.8	- 16	5.4
<b>Effective tax expense/rate</b>	<b>- 78</b>	<b>28.9</b>	<b>- 141</b>	<b>47.0</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

<sup>2</sup> Calculated based on the income before tax of each subsidiary (weighted average).

Compared to 2004 the expected tax rate was significantly lower in 2005 because a larger part of the profit was incurred in low tax countries.

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

CHF mn	2005	2004
Beginning of the year	- 129	- 128
Exchange rate differences	- 1	1
Income statement charge	- 10	- 2
<b>End of the year</b>	<b>- 140</b>	<b>- 129</b>

## 8. Taxes (continued)

The deferred tax assets and liabilities arose as follows on the different types of temporary differences:

CHF mn	31.12.2005	31.12.2004 <sup>1</sup>
<b>Deferred tax liabilities on:</b>		
PPE and intangible assets	380	318
Prepaid pensions, other accruals and provisions	10	70
<b>Total deferred tax liabilities</b>	<b>390</b>	<b>388</b>
<b>Deferred tax assets on:</b>		
PPE and intangible assets	68	63
Retirement benefit obligations	84	83
Tax losses carried forward and tax credits	41	45
Other accruals and provisions	57	68
<b>Total deferred tax assets</b>	<b>250</b>	<b>259</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

Deferred tax assets capitalized on tax losses carried forward comprise a tax loss capitalized in the French subsidiaries in the amount of CHF 18 million. Clariant is confident it can recover this tax loss as a result of the efforts made both in the restructuring program and in the implementation of the new Principal structure.

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 1 024 million at 31 December 2005 (CHF 1 173 million at 31 December 2004).

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

CHF mn	31.12.2005	31.12.2004
Expiry by:		
2005	–	34
2006	32	32
2007	31	31
2008	699	930
2009	640	–
after 2009 (2004: after 2008)	753	1 289
<b>Total</b>	<b>2 155</b>	<b>2 316</b>
<b>Unrecognized tax credits</b>		
CHF mn	31.12.2005	31.12.2004
	6	3

The tax credits expire between 2006 and 2011.

## 9. Inventories

CHF mn	31.12.2005	31.12.2004
Raw material, consumables, work in progress	597	522
Finished products	938	803
<b>Total</b>	<b>1 535</b>	<b>1 325</b>
<b>Movements in write-downs of inventories</b>		
CHF mn	2005	2004
Beginning of the year	68	100
Write-downs on inventories	71	4 8
Reversal of write-downs	- 64	- 80
<b>End of the year</b>	<b>75</b>	<b>68</b>

The Cost of inventories recognized as an expense and included in Costs of goods sold amounted to CHF 3 593 million (2004: CHF 3 538 million).

## 10. Trade receivables

CHF mn	31.12.2005	31.12.2004 <sup>1</sup>
Trade receivables gross	1 555	1 439
Less: provision for impairment of trade receivables	- 67	- 65
<b>Total trade receivables - net</b>	<b>1 488</b>	<b>1 374</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

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

The Group has recognized a loss of CHF 22 million (2004: CHF 17 million) for the impairment of trade receivables during the year ended 31 December 2005. The loss has been included in marketing and distribution in the income statement.

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

### 11. Other current assets

Other current assets include the following:

CHF mn	31.12.2005	31.12.2004 <sup>1</sup>
Other receivables	229	226
Current financial assets	45	153
Prepaid expenses and accrued income	70	40
<b>Total</b>	<b>344</b>	<b>419</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

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

Current financial assets include deposits with a term exceeding 90 days, securities and loans to third parties and are classified as financial assets at fair value through profit or loss at inception.

### 12. Cash and cash equivalents

CHF mn	31.12.2005	31.12.2004
Cash at bank and on hand	215	306
Short-term bank deposits	8	1 171
<b>Total</b>	<b>223</b>	<b>1 477</b>

The effective interest rate on short-term bank deposits in CHF was 0.68% (2004: 0.46%); these deposits have an average maturity of 70 days.

The effective interest rate on short-term bank deposits in EUR was 2.07% (2004: 2.0%); these deposits have an average maturity of 1.7 days.

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

### 13. Changes in share capital and treasury shares

Registered shares each with a par value of CHF 4.75 (2004: CHF 5)	Number of shares 2005	Par value 2005 CHF mn	Number of shares 2004	Par value 2004 CHF mn
At 1 January	230 160 000	1 093	153 440 000	767
Issuance of share capital			76 720 000	384
<b>At 31 December</b>	<b>230 160 000</b>	<b>1 093</b>	<b>230 160 000</b>	<b>1 151</b>
Treasury shares	- 3 867 293	- 18	- 3 388 421	- 17
<b>Outstanding capital at 31 December</b>	<b>226 292 707</b>	<b>1 075</b>	<b>226 771 579</b>	<b>1 134</b>

Treasury shares (number of shares)	2005	2004
Holdings at 1 January	3 388 421	3 532 869
Adjustment due to the inclusion of employee participation fund shares	–	266 020
Holdings at 1 January (restated)	3 388 421	3 798 889
Shares purchased at fair market value	1 060 000	721 642
Shares sold at fair market value	- 150 000	- 800 000
Shares transferred to employees	- 431 128	- 332 110
<b>Holdings at 31 December</b>	<b>3 867 293</b>	<b>3 388 421</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 Articles of Incorporation, no limitations exist with regard to the registration of shares which are acquired in one's own name and on one's own account. Special rules exist for nominees.

In accordance with Article 12 of the Articles of Incorporation, each share has the right to one vote. A shareholder can only vote for his own shares and for represented shares, up to a maximum of 10% of the total share capital.

## 14. Non-current financial debts

CHF mn	Interest rate in %	Term	Original amount	Repurchased	Net amount 31.12.2005	Net amount 31.12.2004
Straight bonds	4.125	1996–2006	200	- 41	159	154
Straight bonds	3.750	1997–2007	200	- 25	175	175
Straight bonds	3.000	1998–2005	250	- 250	–	201
Straight bonds	4.250	2000–2008	500	- 116	384	384
<b>Total straight bonds</b>			<b>1 150</b>	<b>- 432</b>	<b>718</b>	<b>914</b>
<b>Liabilities to banks and other financial institutions<sup>1</sup></b>					<b>57</b>	<b>1 424</b>
<b>Obligations under finance leases</b>					<b>22</b>	<b>7</b>
<b>Subtotal</b>					<b>797</b>	<b>2 345</b>
<b>Less current portion</b>					<b>- 198</b>	<b>- 622</b>
<b>Total</b>					<b>599</b>	<b>1 723</b>
Breakdown by maturity				2006		345
				2007	180	644
				2008	393	555
				2009		171
				2010		
				thereafter	26	8
<b>Total</b>					<b>599</b>	<b>1 723</b>
Breakdown by currency				CHF	559	793
				EUR	24	287
				USD	3	–
				JPY	–	603
				other	13	40
<b>Total</b>					<b>599</b>	<b>1 723</b>
<b>Fair value comparison (including current portion)</b>						
Straight bonds					744	950
Others					79	1 507
<b>Total</b>					<b>823</b>	<b>2 457</b>
<b>Total net book value of assets pledged as collateral for financial debts</b>					<b>101</b>	<b>66</b>
Total collateralized financial debts					22	28

<sup>1</sup> Average interest rate in 2005: 4.3% (2004: 4.7%).

In 2005, bonds in the amount of CHF 201 million were paid back on expiry in order to reduce financial debt (CHF 250 million in 2004).

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

**Covenants.** After having paid back substantial amounts of bank loans, Clariant Ltd is now borrowing and guaranteeing all obligations under one remaining 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, liens, 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 debt: Mostly current debt at variable interest rates.

## 15. Retirement benefit obligations

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

### Defined benefit post-employment plans

Defined benefit pensions and termination plans cover the majority of the Group's employees. Future obligations and the corresponding assets of those plans considered as defined benefit plans under IAS 19 are reappraised annually and reassessed at least every three years by independent actuaries. Assets are valued at fair values. US employees

transferred to Clariant with the Hoechst Specialty Chemicals business remain insured with Hoechst for their pension claims incurred prior to 30 June 1997.

### Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes in the USA, Canada and France. The method of accounting for the liabilities associated with these plans is similar to the one used for defined benefit pension schemes. These plans are not externally funded, but are covered by provisions in the balance sheets of the Group companies concerned.

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

Changes in the present value of defined benefit obligations:

CHF mn	Pension plans (funded and unfunded)		Post-employment medical benefits (unfunded)	
	2005	2004	2005	2004
Beginning of the year	1 828	1 764	86	113
Current service cost	54	61	2	2
Interest costs on obligation	83	85	5	6
Contributions to plan by employees	11	12	–	–
Benefits paid out to personnel in reporting period	- 92	- 64	- 5	- 3
Actuarial loss (gain) of reporting period	155	–	12	–
Past service costs (gains) of reporting period	–	–	–	- 24
Termination benefits	–	24	–	–
Losses (gains) on curtailments or settlements	2	- 2	–	- 1
Reduction in obligations due to divestitures	- 7	- 24	–	–
Exchange rate differences	63	- 28	13	- 7
<b>End of the year</b>	<b>2 097</b>	<b>1 828</b>	<b>113</b>	<b>86</b>

Changes in the fair value of plan assets:

CHF mn	2005	2004
	Beginning of the year	1 310
Expected return on plan assets	72	67
Contributions to plan by employees	11	12
Contributions to plan by employer	69	40
Benefits paid out to personnel in reporting period	- 66	- 43
Actuarial gain (loss) of reporting period	123	31
Termination benefits	–	- 6
Gains (losses) on curtailments or settlements	–	- 2
Reduction in assets due to divestitures	–	- 9
Exchange rate differences	48	- 23
<b>End of the year</b>	<b>1 567</b>	<b>1 310</b>

The Group expects to contribute CHF 44 million to its defined benefit pension plans in 2006.

The pension plan assets include registered shares issued by the company with a fair value of CHF 397 000 at 31 December 2005 (2004: CHF 124 000).

The amounts recognized in the balance sheet:

CHF mn	Defined benefit pension plans		Post-employment medical benefits		Total	
	2005	2004	2005	2004	2005	2004
Present value of funded obligations	- 1 653	- 1 475			- 1 653	- 1 475
Fair value of plan assets	1 567	1 310			1 567	1 310
<b>Deficit</b>	<b>- 86</b>	<b>- 165</b>			<b>- 86</b>	<b>- 165</b>
Present value of unfunded obligations	- 444	- 353	- 113	- 86	- 557	- 439
Unrecognized actuarial losses (gains)	251	219	16	3	267	222
Unrecognized past service costs (gains)			- 20	- 20	- 20	- 20
<b>Net liabilities in the balance sheet</b>	<b>- 279</b>	<b>- 299</b>	<b>- 117</b>	<b>- 103</b>	<b>- 396</b>	<b>- 402</b>

Thereof recognized in:

CHF mn	2005	2004	2005	2004	2005	2004
Defined benefit obligation	- 356	- 348	- 117	- 103	- 473	- 451
Prepaid pension assets	77	49	-	-	77	49
<b>Net liabilities in the balance sheet for defined benefit plans</b>	<b>- 279</b>	<b>- 299</b>	<b>- 117</b>	<b>- 103</b>	<b>- 396</b>	<b>- 402</b>

The amounts recognized in the income statement:

CHF mn	2005	2004	2005	2004	2005	2004
Current service cost	- 54	- 61	- 2	- 2	- 56	- 63
Interest cost	- 83	- 85	- 5	- 6	- 88	- 91
Expected return on plan assets	72	67	-	-	72	67
Net actuarial losses recognized in the current year	- 9	- 13	-	-	- 9	- 13
Past service costs recognized in the current year	-	-	3	2	3	2
Termination benefits	-	- 30	-	-	-	- 30
Effect of curtailments and settlements	- 1	- 9	-	-	- 1	- 9
Total expenses	- 75	- 131	- 4	- 6	- 79	- 137
<b>Actual return on plan assets</b>	<b>195</b>	<b>98</b>			<b>195</b>	<b>98</b>

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

CHF mn	2005	2004
Defined benefit obligation	- 473	- 451
Defined contribution obligation	- 34	- 28
<b>Retirement benefit obligations</b>	<b>- 507</b>	<b>- 479</b>
<b>Prepaid pension assets</b>	<b>77</b>	<b>49</b>
<b>Net retirement benefit obligations recognized</b>	<b>- 430</b>	<b>- 430</b>

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

	2005	2004
	%	%
Equities	46	46
Bonds	31	27
Cash	7	12
Property	9	9
Alternative investments	7	6

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

	2005	2004
	%	%
Discount rate	4.0	4.6
Expected return on plan assets	5.4	5.3
Expected inflation rate	2.4	2.8
Long-term increase in health care costs	9.5	9.4

A one percentage point change in health care cost trend rates would have the following effects:

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

Amounts for current and previous period:

<b>Defined benefit pension plans</b>	2005	2004
CHF mn		
Defined benefit obligation for pension plans, funded and unfunded	- 2 097	- 1 828
Fair value of plan assets	1 567	1 310
<b>Deficit</b>	<b>- 530</b>	<b>- 518</b>
Experience adjustments on plan liabilities	155	
Experience adjustments on plan assets	123	31
<b>Post-employment medical benefits</b>	<b>2005</b>	<b>2004</b>
CHF mn		
Defined benefit obligation for post-employment medical plans	- 113	- 86
Experience adjustments on plan liabilities	12	

#### Defined contribution post-employment plans.

In 2005, CHF 34 million were charged to the income statements of the Group companies as contributions to defined contribution plans (2004: CHF 34 million).

## 16. Movements in provisions for non-current liabilities

CHF mn	Non-current environmental provisions	Non-current personnel provisions <sup>1</sup>	Non-current restructuring provisions	Other non-current provisions	Total provision for non-current liabilities 2005	Total provision for non-current liabilities 2004 <sup>2</sup>
At 1 January	204	77	–	38	319	356
Additions	1	18	1	14	34	57
Reclassifications	- 26	- 20	2	1	- 43	–
Amounts used	- 9	- 14		- 4	- 27	- 72
Unused amounts reversed	- 1	- 12		- 5	- 18	- 15
Changes due to the passage of time and changes in discount rates	3	1		1	5	3
Exchange rate differences	9		3	7	19	- 10
<b>At 31 December</b>	<b>181</b>	<b>50</b>	<b>6</b>	<b>52</b>	<b>289</b>	<b>319</b>
<b>Debts falling due</b>						
Between 1 and 3 years	39	11	5	12	67	65
Between 3 and 5 years	15	21	1	8	45	35
Over 5 years	127	18		32	177	219
<b>At 31 December</b>	<b>181</b>	<b>50</b>	<b>6</b>	<b>52</b>	<b>289</b>	<b>319</b>

<sup>1</sup> Restated for separate disclosure of retirement benefit obligation on the face of the Balance sheet.

<sup>2</sup> Restated, refer to note 1.04 for details.

**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 cost 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.

**Non-current personnel provisions.** Non-current personnel provisions include compensated long-term absences such as sabbatical leave, jubilee or other long-service benefits, non-current disability benefits, profit sharing and bonuses payable twelve months or more after the end of the period in which they are 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 activities that have as a consequence, staff redundancies and the shutdown of production lines or entire sites. However, expenses for termination benefits which are borne by the pension and termination plans are included in pension plan liabilities.

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

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

## 17. Trade payables

CHF mn	31.12.2005	31.12.2004
Trade payables	746	646
Accruals	308	353
Other payables	151	166
<b>Total</b>	<b>1 205</b>	<b>1 165</b>

## 18. Current financial debts

CHF mn	31.12.2005	31.12.2004 <sup>1</sup>
Banks and other financial institutions (including employee's accounts)	939	550
Current portion of non-current financial debts	198	622
<b>Total</b>	<b>1 137</b>	<b>1 172</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

## 19. Movements in provisions for current liabilities

**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 cost 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.

**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 activities that have as a consequence, staff redundancies and the shut-down of production lines or entire sites. However, expenses for termination benefits which are borne by the pension and termination plans are included in pension plan liabilities (see note 15).

**Current personnel provisions.** Liabilities from personnel costs include holiday entitlements, compensated absences such as annual leave, profit sharing and bonuses payable within twelve months, and non-monetary benefits such as medical care, housing and cars for current employees, payable within twelve months. Such provisions are accrued in proportion to the services rendered by the employees concerned.

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

CHF mn	Environmental provisions	Restructuring provisions	Current personnel provisions	Other current provisions	Total provisions for current liabilities 2005	Total provisions for current liabilities 2004
At 1 January	–	60	114	191	365	363
Additions and reclassifications	27	37	189	114	367	312
Amounts used	- 6	- 24	- 148	- 112	- 290	- 284
Unused amounts reversed	- 1	- 5	- 5	- 18	- 29	- 33
Exchange rate differences	1	1	10	6	18	7
<b>At 31 December</b>	<b>21</b>	<b>69</b>	<b>160</b>	<b>181</b>	<b>431</b>	<b>365</b>

## 20. Regional breakdown of key figures 2005 and 2004

Region CHF mn	Sales <sup>1</sup>		Operating income <sup>2,5</sup>		Number of employees at 31 December	
	2005	2004	2005	2004	2005	2004
<b>Continuing operations</b>						
Europe	4 111	4 154	123	209	12 664	13 595
<i>thereof in Germany</i>	1 253	1 244	120	97	6 096	7 027
<i>thereof in Switzerland</i>	177	181	43	28	1 627	1 280
The Americas	2 269	2 191	141	181	5 372	5 651
<i>thereof in the United States</i>	1 082	1 107	45	27	1 923	2 051
Asia/Africa/Australia	1 801	1 799	104	101	5 347	5 523
<b>Total continuing operations</b>	<b>8 181</b>	<b>8 144</b>	<b>368</b>	<b>491</b>	<b>23 383</b>	<b>24 769</b>
<b>Discontinued operations</b>						
Europe		60		- 14		
<i>thereof in Germany</i>		40		- 4		
The Americas		66		3		
<i>thereof in the United States</i>		65		3		
Asia/Africa/Australia		260		53		
<b>Total discontinued operations</b>	<b>-</b>	<b>386</b>	<b>-</b>	<b>42</b>	<b>-</b>	<b>-</b>
<b>Total Group</b>	<b>8 181</b>	<b>8 530</b>	<b>368</b>	<b>533</b>	<b>23 383</b>	<b>24 769</b>

Region CHF mn	Investments in PPE and intangibles <sup>4</sup>		Depreciation of PPE and intangibles <sup>4</sup>		Net operating assets at 31 December <sup>3, 4</sup>	
	2005	2004	2005	2004	2005	2004
<b>Continuing operations</b>						
Europe	250	186	253	269	2 353	2 226
<i>thereof in Germany</i>	134	111	81	141	721	767
<i>thereof in Switzerland</i>	42	16	39	39	287	161
The Americas	69	45	59	64	908	720
<i>thereof in the United States</i>	32	16	35	45	362	295
Asia/Africa/Australia	34	40	30	30	838	699
<b>Total continuing operations</b>	<b>353</b>	<b>271</b>	<b>342</b>	<b>363</b>	<b>4 099</b>	<b>3 645</b>
<b>Discontinued operations</b>						
Europe		3		3		
<i>thereof in Germany</i>		3		2		
The Americas		15		8		
<i>thereof in the United States</i>		15		8		
Asia/Africa/Australia		8		11		
<b>Total discontinued operations</b>	<b>-</b>	<b>26</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>-</b>
<b>Total Group</b>	<b>353</b>	<b>297</b>	<b>342</b>	<b>385</b>	<b>4 099</b>	<b>3 645</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.

<sup>4</sup> Restated to include intangibles.

<sup>5</sup> Restated, refer to note 1.04 for details

## 21. Divisional breakdown of key figures 2005 and 2004

On 30 September 2004 Electronic Materials was sold, and as a consequence is shown under discontinued activities for 2004.

In 2005 Clariant discontinued the practice of selling merchandise from one division to another within the same legal entity. In 2004 divisional

sales still comprised such transactions in the amount of CHF 175 million. The change of this practice affected divisional sales in 2005 but does not have any impact on Total sales.

2004 figures were restated. For details see note 1.04.

Divisions continuing operations CHF mn	Textile, Leather & Paper Chemicals (TLP)		Pigments & Additives (PA)		Masterbatches (MB)	
	2005	2004	2005	2004	2005	2004
Divisional sales	2 204	2 239	1 925	1 902	1 145	1 110
Sales to other divisions	- 12	- 36	- 46	- 74	- 1	- 2
<b>Total sales</b>	<b>2 192</b>	<b>2 203</b>	<b>1 879</b>	<b>1 828</b>	<b>1 144</b>	<b>1 108</b>
Operating expenses	- 2 019	- 2 046	- 1 723	- 1 642	- 1 058	- 1 007
Income from associates	- 1	1	18	17	2	1
Gain/loss from the sale of discontinued operations						
Gain/loss from the sale of subsidiaries and associates		- 25		- 1		
Restructuring and impairment	- 19	- 48	- 9	- 35	- 16	- 8
Amortization of goodwill		- 22		- 5		- 3
<b>Operating income</b>	<b>153</b>	<b>63</b>	<b>165</b>	<b>162</b>	<b>72</b>	<b>91</b>
Interest expense						
Other financial income and expenses						
<b>Income before taxes</b>						
Taxes						
<b>Net income</b>						
Total assets	2 004	1 778	1 812	1 651	614	562
Liabilities	- 186	- 166	- 144	- 157	- 88	- 76
<b>Total equity and minority interests</b>	<b>1 818</b>	<b>1 612</b>	<b>1 668</b>	<b>1 494</b>	<b>526</b>	<b>486</b>
Net debts <sup>3</sup>						
<b>Total net operating assets<sup>1</sup></b>	<b>1 818</b>	<b>1 612</b>	<b>1 668</b>	<b>1 494</b>	<b>526</b>	<b>486</b>
Thereof:						
Investments in PPE and intangibles for the period	91	56	87	72	33	35
Investments in associates	4	7	208	207	3	4
Operating income	153	63	165	162	72	91
Add: Systematic depreciation of PPE	72	75	71	75	29	28
Add: Impairment loss on PPE	3	8	- 12	8	5	1
Add: Amortization of goodwill		22		5		3
Add: Amortization of other intangibles					1	1
<b>EBITDA<sup>2</sup></b>	<b>228</b>	<b>168</b>	<b>224</b>	<b>250</b>	<b>107</b>	<b>124</b>
Add: Restructuring and impairment	19	48	9	35	16	8
Less: Impairment loss on PPE (Reported under restructuring and impairment)	- 3	- 8	12	- 8	- 5	- 1
Less: Gain/loss from the sale of discontinued operations, subsidiaries and associates		25		1		
<b>EBITDA before restructuring and disposals</b>	<b>244</b>	<b>233</b>	<b>245</b>	<b>278</b>	<b>118</b>	<b>131</b>
Operating income	153	63	165	162	72	91
Add: Restructuring and impairment	19	48	9	35	16	8
Less: Gain/loss from the sale of discontinued operations, subsidiaries and associates		25		1		
Add: Amortization of goodwill		22		5		3
<b>Operating income before restructuring and disposals and amortization of goodwill</b>	<b>172</b>	<b>158</b>	<b>174</b>	<b>203</b>	<b>88</b>	<b>102</b>

<sup>1</sup> Within net operating assets, PPE including infrastructure, inventory, trade payables, receivables and goodwill were allocated to each division. All other balance sheet positions generally included in the calculation of net operating assets were allocated to Corporate.

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

<sup>3</sup> Calculation of net debt CHF mn	2005	2004
Non-current financial debt	599	1 723
Add: Current financial debt	1 137	1 172
Less: Cash and cash equivalents	- 223	- 1 477
Less: Current deposits 90 to 365 days	- 5	- 87
<b>Net debt</b>	<b>1 508</b>	<b>1 331</b>

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

Segment assets consist primarily of property, plant and equipment, goodwill, inventories, receivables and investments in associates. They

exclude deferred tax assets, financial fixed assets and operating cash. Segment liabilities comprise trade payables. They exclude items such as taxation, provisions for liabilities and corporate borrowings.

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

Functional Chemicals (FUN)		Life Science Chemicals (LSC)		Total divisions continuing operations		Corporate		Total continuing operations		Discontinued operations		Total Group	
2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
2 095	2 034	892	1 101	8 261	8 386			8 261	8 386		386	8 261	8 772
- 12	- 57	- 9	- 73	- 80	- 242			- 80	- 242			- 80	- 242
<b>2 083</b>	<b>1 977</b>	<b>883</b>	<b>1 028</b>	<b>8 181</b>	<b>8 144</b>			<b>8 181</b>	<b>8 144</b>		<b>386</b>	<b>8 181</b>	<b>8 530</b>
- 1 880	- 1 758	- 868	- 1 005	- 7 548	- 7 458	- 140	- 118	- 7 688	- 7 576		- 344	- 7 688	- 7 920
7	5			26	24	- 3	2	23	26			23	26
	6		89		95	- 2		- 2	95			- 2	95
		28	- 6	28	- 32	12		40	- 32			40	- 32
- 13	- 10	- 79	- 11	- 136	- 112	- 50	- 24	- 186	- 136			- 186	- 136
					- 30				- 30				- 30
<b>197</b>	<b>220</b>	<b>- 36</b>	<b>95</b>	<b>551</b>	<b>631</b>	<b>- 183</b>	<b>- 140</b>	<b>368</b>	<b>491</b>		<b>42</b>	<b>368</b>	<b>533</b>
								- 132	- 154			- 132	- 154
								34	- 79			34	- 79
								<b>270</b>	<b>258</b>		<b>42</b>	<b>270</b>	<b>300</b>
								- 78	- 134		- 7	- 78	- 141
								<b>192</b>	<b>124</b>		<b>35</b>	<b>192</b>	<b>159</b>
1 159	916	633	836	6 222	5 743	1 102	2 357	7 324	8 100			7 324	8 100
- 162	- 147	- 68	- 84	- 648	- 630	- 4 085	- 5 156	- 4 733	- 5 786			- 4 733	- 5 786
<b>997</b>	<b>769</b>	<b>565</b>	<b>752</b>	<b>5 574</b>	<b>5 113</b>	<b>- 2 983</b>	<b>- 2 799</b>	<b>2 591</b>	<b>2 314</b>			<b>2 591</b>	<b>2 314</b>
						1 508	1 331	1 508	1 331			1 508	1 331
<b>997</b>	<b>769</b>	<b>565</b>	<b>752</b>	<b>5 574</b>	<b>5 113</b>	<b>- 1 475</b>	<b>- 1 468</b>	<b>4 099</b>	<b>3 645</b>			<b>4 099</b>	<b>3 645</b>
64	43	47	36	322	242	31	29	353	271		26	353	297
53	45	3	3	271	266	11	11	282	277			282	277
197	220	- 36	95	551	631	- 183	- 140	368	491		42	368	533
49	49	38	54	259	281	14	5	273	286		20	273	306
2	7	61	15	59	39			59	39			59	39
					30				30				30
				1	1	9	7	10	8		2	10	10
<b>248</b>	<b>276</b>	<b>63</b>	<b>164</b>	<b>870</b>	<b>982</b>	<b>- 160</b>	<b>- 128</b>	<b>710</b>	<b>854</b>		<b>64</b>	<b>710</b>	<b>918</b>
13	10	79	11	136	112	50	24	186	136			186	136
- 2	- 7	- 61	- 15	- 59	- 39			- 59	- 39			- 59	- 39
	- 6	- 28	- 83	- 28	- 63	- 10		- 38	- 63			- 38	- 63
<b>259</b>	<b>273</b>	<b>53</b>	<b>77</b>	<b>919</b>	<b>992</b>	<b>- 120</b>	<b>- 104</b>	<b>799</b>	<b>888</b>		<b>64</b>	<b>799</b>	<b>952</b>
197	220	- 36	95	551	631	- 183	- 140	368	491		42	368	533
13	10	79	11	136	112	50	24	186	136			186	136
	- 6	- 28	- 83	- 28	- 63	- 10		- 38	- 63			- 38	- 63
					30				30				30
<b>210</b>	<b>224</b>	<b>15</b>	<b>23</b>	<b>659</b>	<b>710</b>	<b>- 143</b>	<b>- 116</b>	<b>516</b>	<b>594</b>		<b>42</b>	<b>516</b>	<b>636</b>

## 22. Non-current assets held for sale and discontinued operations

IFRS 5, 'Non-current assets held for sale and discontinued operations' has been applied prospectively from 1 January 2005.

At 31 December 2005 there were no non-current assets classified as held for sale nor were there any discontinued operations.

In 2005 the cash flows from the disposal of discontinued operations include the settlement of CHF 7 million related to the Electronic Materials Business sold in 2004.

**Electronic Materials.** On 30 September 2004 Clariant sold the Electronic Materials Business, belonging to the Life Science Chemicals Division, to the Carlyle Group.

Prior to the disposal, Clariant acquired the minority shares of the Korean subsidiary Clariant Industries (Korea) Ltd for a total consideration of CHF 24 million generating a goodwill of CHF 17 million. Clariant Industries (Korea) Ltd was subsequently sold as a part of the disposal of Electronic Materials.

The transaction comprised share deals in Germany, Korea, Taiwan and China, and asset deals in Japan, the United States, France, Hong Kong and the United Kingdom. As part of the disposal of Electronic Materials, Clariant granted a vendor loan note to the purchaser in the amount of CHF 40 million.

The exchange rate variances which had to be recycled as a result of the disposal of Electronic Materials, amounted to an expense of CHF 26 million.

The participation in Infracerv GmbH & Co. Wiesbaden KG was reduced from 23% to 8% as a result of the sale of the Electronic Materials Business to Carlyle.

**Cellulose Ethers.** On 31 December 2003 Clariant sold the operations of Cellulose Ethers, belonging to the Functional Chemicals Division, to the Shin-Etsu Group. An additional gain of CHF 6 million and a cash inflow of CHF 10 million resulting from the settlement of this transaction were recognized in 2004.

The result of discontinued operations is as follows:

CHF mn	2005	2004
Sales		386
Operating expenses		- 344
<b>Operating income</b>		<b>42</b>
Financial result		
<b>Income before taxes</b>		<b>42</b>
Taxes		- 7
<b>Income after taxes</b>		<b>35</b>
<b>Cash flow from discontinued operations</b>	<b>2005</b>	2004
Operating cash flow		21
Investing cash flow		- 26
Financing cash flow		- 4
<b>Total cash flow</b>		<b>- 9</b>
<b>Net assets of disposal group<sup>1</sup>:</b>	<b>2005</b>	2004
Property, plant and equipment		195
Investments in associates		24
Goodwill		17
Other intangibles		12
Current assets		161
Total liabilities		- 121
<b>Total net assets of disposal group</b>		<b>288</b>
Number of employees of the disposal group		543
<b>Net income and cash flow from the disposal of discontinued operations</b>	<b>2005</b>	2004
CHF mn		
Consideration for sale	- 7	404
Net assets sold including disposal-related expenses	5	- 309
<b>Gain on disposals before exchange rate variances recycled and tax expense</b>	<b>- 2</b>	<b>95</b>
Exchange rate variances recycled		- 26
Tax expense		- 21
<b>After tax gain on disposal</b>	<b>- 2</b>	<b>48</b>
The net cash inflow from sale is determined as follows:		
Total consideration for sale	- 7	404
Less: Vendor loan note and deferred payments		- 57
Less: Cash and cash equivalents in subsidiary sold		- 12
<b>Net cash inflow from sale</b>	<b>- 7</b>	<b>335</b>

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

### 23. Disposal of subsidiaries and associates

On 21 June 2005, the Group announced the sale of its subsidiary Clariant (Acetyl Building Blocks) GmbH & Co. KG (CABB) to the Gilde Buy-out Fund. CABB, with its main product monochloroacetic acid (MCAA), was focusing on products based on chlorine and acetyl chemistry. The transaction was closed on 29 July 2005 together with the sale of the international MCAA business activities belonging to the Life Science Chemicals Division.

On 21 December 2005, Clariant sold its 39% stake in the associate, Fuchs Do Brasil S.A, to Fuchs Petrolub AG.

On 30 September 2004, the activities of Lancaster Synthesis Ltd in the United Kingdom and the United States, belonging to the Life Science Chemicals Division were sold.

On 30 September 2004, Clariant sold the investment in SF-Chem.

On 30 November 2004, Clariant sold the subsidiary Clariant Polymers, Japan, belonging to the Textile, Leather & Paper Chemicals Division.

Net income and cash flow from the disposal of subsidiaries and associates	Disposals during 2005			Total 2005	Total 2004 <sup>1</sup>
	CABB	Fuchs	Other		
CHF mn					
Consideration for sale	68	12	5	85	52
Net assets sold including disposal-related expenses	- 40	- 2	- 3	- 45	- 84
<b>Gain on disposals before tax expense</b>	<b>28</b>	<b>10</b>	<b>2</b>	<b>40</b>	<b>- 32</b>
Tax expense	- 6	- 1		- 7	- 2
<b>After tax gain on disposal</b>	<b>22</b>	<b>9</b>	<b>2</b>	<b>33</b>	<b>- 34</b>
The net cash inflow from sale is determined as follows:					
Total consideration for sale	68	12	5	85	52
Less: Cash and cash equivalents in subsidiary sold	- 13			- 13	- 2
Less: Tax paid by buyer on behalf of the Group		- 1		- 1	
<b>Net cash inflow from sale</b>	<b>55</b>	<b>11</b>	<b>5</b>	<b>71</b>	<b>50</b>

<sup>1</sup> Restated, as disposal of subsidiaries and associates are now reported as a separate line item in the income statement.

### 24. Purchase of business activities and minorities

On 26 May 2005, Data Chem, Inc., a Louisiana US corporation, and certain fixed assets necessary to run the entity subsequent to the transaction, were acquired and integrated into the Functional Chemicals Division. Goodwill in the amount of CHF 3 million, being the difference between the total purchase cost of CHF 11 million and the fair value of identified net assets purchased in the amount of CHF 8 million, was recognized.

Also in 2005 additional minority shares in Colour-Chem Ltd, India, were acquired for CHF 22 million, resulting in additional goodwill of CHF 8 million.

In 2004 all shares held by minority shareholders of Clariant in Korea were acquired for CHF 24 million, resulting in a goodwill of CHF 17 million.

### 25. Other financial income and expenses

CHF mn	2005	2004
<b>Financial income</b>		
Interest income	28	18
Realized fair value gains on early repayments of bank loans	13	-
Other financial income	9	9
<b>Total financial income</b>	<b>50</b>	<b>27</b>

**25. Other financial income and expenses (continued)**

CHF mn	2005	2004
<b>Financial expenses</b>		
Penalty for early repayment of bank loans	- 43	-
Other financial expenses	- 28	- 31
<b>Total financial expenses</b>	<b>- 71</b>	<b>- 31</b>
Currency result, net	55	- 75
<b>Total</b>	<b>34</b>	<b>- 79</b>

Other financial income mainly consists of dividends from securities and other investments.

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

**26. Earnings per share (EPS)**

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

	2005	2004 <sup>1</sup>
<b>Net income attributable to equity holders (CHF mn)</b>	<b>184</b>	<b>152</b>
<b>Diluted net income attributable to equity holders (CHF mn)</b>	<b>184</b>	<b>152</b>
<b>Shares</b>		
Holdings on 1 January <sup>2</sup>	226 771 579	172 536 201
Effect of the issuance of share capital and transactions with treasury shares on weighted average number of shares outstanding	- 339 847	38 050 609
<b>Weighted average number of shares outstanding</b>	<b>226 431 732</b>	<b>210 586 810</b>
Adjustment for granted Clariant shares	1 248 678	1 455 150
Adjustment for dilutive share options	58 934	37 463
<b>Weighted average diluted number of shares outstanding</b>	<b>227 739 344</b>	<b>212 079 423</b>
<b>Basic earnings per share (CHF/share)</b>	<b>0.81</b>	<b>0.72</b>
<b>Diluted earnings per share (CHF/share)</b>	<b>0.81</b>	<b>0.72</b>

<sup>1</sup> Restated, refer to note 1.04 for details.

<sup>2</sup> Restated for impact of capital increase (adjustment factor 1.15)

Earnings per share have been calculated using the adjustment factor of 1.15 to determine the average number of shares outstanding from 1 January to 20 April 2004 (date of issuance of share capital in the form of a rights issue).

Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The dilution effect is triggered by two different items. One is the effect of Clariant shares granted as part of the share based payment plan, which have not yet been vested. To calculate this dilutive potential it is assumed that they had been vested on 1 January of the respective pe-

riod. The other item is the effect of options granted as part of the share based payment plan, which have not yet been vested. To calculate this dilutive potential it is assumed that all options which were in the money at the end of the respective period had been exercised on 1 January of the same period.

Net income of 2004 was restated for the impact of IFRS 2, in the amount of CHF 2 million.

The number of shares were restated due to the consolidation of the Employee Participation fund. The impact was a decrease of 266 020 shares outstanding.

## 27. Restructuring and impairment

In order to increase profitability over a sustained period, Clariant has launched a broad initiative designed to improve its performance. The aim of the program is to increase the Group's operating result and reduce net working capital. The changes that need to be made to the processes and structures in order to achieve these aims, will result in the loss of around 4000 jobs across the Group between 2004 and 2006.

**Restructuring.** As part of the performance improvement program, in 2005 staff were reduced and sites closed mainly in Germany, France, Spain, the United Kingdom and the United States. The costs for the dismissal of personnel in these places have been recorded as restructuring costs.

**Impairment.** As a result of the performance improvement program and the resulting staff reduction, PPE were reviewed for impairment in value. 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. In France, production facilities pertaining to the divisions Pigments & Additives, Life Science Chemicals and Masterbatches were closed or restructured, entailing the write-off of PPE in the amount of CHF 20 million.

Clariant also assessed the recoverability of the carrying amount of non-current assets of several cash generating units in 2005. For this purpose assets were grouped at the lowest level for which there are separately identifiable cash flows. An impairment loss was recognized

CHF mn

	TLP		PA		MB	
	2005	2004	2005	2004	2005	2004
<b>Cash out expenses for restructuring</b>	<b>8</b>	<b>6</b>	<b>12</b>	<b>2</b>	<b>6</b>	<b>3</b>
<b>Non-cash expenses for:</b>						
Leaving indemnity	9	31	14	12	5	2
Others	- 1	3	- 5	13	-	2
<b>Total non-cash expenses for restructuring</b>	<b>8</b>	<b>34</b>	<b>9</b>	<b>25</b>	<b>5</b>	<b>4</b>
<b>Total restructuring expenses</b>	<b>16</b>	<b>40</b>	<b>21</b>	<b>27</b>	<b>11</b>	<b>7</b>
<b>Impairment of PPE:</b>						
Land and buildings	2	-	1	2	-	-
Machinery and equipment	1	8	4	6	5	1
Reversal of impairment			- 17			
<b>Total impairment of PPE</b>	<b>3</b>	<b>8</b>	<b>- 12</b>	<b>8</b>	<b>5</b>	<b>1</b>
<b>Total restructuring and impairment</b>	<b>19</b>	<b>48</b>	<b>9</b>	<b>35</b>	<b>16</b>	<b>8</b>
<b>Thereof non-cash expenses</b>	<b>11</b>	<b>42</b>	<b>- 3</b>	<b>33</b>	<b>10</b>	<b>5</b>

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. As a result of this procedure, Clariant depreciated for impairment the PPE of the CGU Pharma, belonging to the Life Science Chemicals Division, by an amount of CHF 55 million. The asset values reported for this segment represent the value in use. The discount rate, which was applied to determine the value in use (pretax, risk adjusted, weighted average cost of capital) amounted to 10%.

In the process of the assessment of the recoverability of the carrying amount of non-current assets it also became evident that the impairment devaluation of a production site in Höchst, Germany, recorded in 2003 was no longer justified. The cash flows generated by the CGUs Pigments & Additives and Specialty Fine Chemicals are sufficient to recover the carrying amount of the assets in question that would be recorded if the impairment devaluation had never taken place. The impairment devaluation was therefore reversed to such an extent that the assets now have the carrying amount that they would have had if the impairment devaluation had never occurred. This reversal resulted in an income of CHF 17 million.

	FUN		LSC		Total divisions		Corporate		Total Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	3		12	1	41	12	29	20	70	32
	5	2	8	8	41	55	24	–	65	55
	3	1	- 2	- 13	- 5	6	- 3	4	- 8	10
	8	3	6	- 5	36	61	21	4	57	65
	11	3	18	- 4	77	73	50	24	127	97
	2	1	17	14	22	17	–	–	22	17
	–	6	44	1	54	22	–	–	54	22
					- 17				- 17	
	2	7	61	15	59	39			59	39
	13	10	79	11	136	112	50	24	186	136
	10	10	67	10	95	100	21	4	116	104

## 28. 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 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 exchange contracts and currency swaps in various currencies. In order to minimize financial expenses, the Group does not hedge the entire exposure.

**Counterparty risk.** Financial instruments contain an element of risk that the counterparty may be unable to either issue securities or to fulfill the settlement terms of a contract. Clariant therefore only cooperates with counterparties or issuers that are at least A-rated. The cumulative exposure to these counterparties is constantly monitored by the Group management, therefore there is no expectation of a material loss due to counterparty risk in the future.

The following 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 values or standard pricing models at 31 December 2005 and 2004, respectively.

Financial instruments CHF mn	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2005	2004	2005	2004	2005	2004
<b>Currency-related hedging instruments</b>						
Forward foreign exchange rate contracts and cross-currency swaps	88	631	–	3	- 1	- 52
<b>Total financial instruments</b>	<b>88</b>	<b>631</b>	<b>–</b>	<b>3</b>	<b>- 1</b>	<b>- 52</b>

Financial instruments by maturity CHF mn	1 – 12 months		1 – 5 years		Total	
	2005	2004	2005	2004	2005	2004
<b>Currency-related hedging instruments</b>						
Forward foreign exchange rate contracts and cross-currency swaps	88	329	–	302	88	631
<b>Total financial instruments</b>	<b>88</b>	<b>329</b>	<b>–</b>	<b>302</b>	<b>88</b>	<b>631</b>

<b>Financial instruments by currency</b>	<b>2005</b>	2004
Forward foreign exchange rate contracts and cross currency swaps		
CHF mn		
JPY		377
USD	87	250
EUR	1	3
Other		1
<b>Total financial instruments</b>	<b>88</b>	<b>631</b>

<b>Financial instruments effective for hedge-accounting purposes</b>	<b>2005</b>	2004
CHF mn		
<b>Fair value of cash flow hedges:</b>		
<b>Contracts with positive fair values</b>	–	–
<b>Contracts with negative fair values</b>		
Cross currency swaps	–	- 49
<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	–	- 527

The Group's US dollar-denominated borrowing was designated as a hedge of the net investment in one of the Group's US subsidiaries. The fair value of the borrowing as at 22 July 2005 (repayment date) was CHF 285 million (2004: CHF 251 million). The foreign exchange gain of CHF 34 million (2004: CHF 69 million) on translation of the borrowing to CHF at the balance sheet date was recognized in Cumulative currency translation reserves in Shareholders' equity.

The Group's EUR denominated borrowing was designated as a hedge of the net investment in one of the Group's German subsidiaries. The

fair value of the borrowing as at 19 December 2005 (repayment date) was CHF 277 million (2004: CHF 276 million). The foreign exchange gain of CHF 11 million (2004: CHF 12 million) on translation of the borrowing to CHF at the balance sheet date was recognized in Cumulative currency translation reserves in Shareholders' equity.

Due to the early repayment of the hedged JPY loan, the cross-currency swaps designated as cash flow hedges were closed and the amount deferred in equity in the prior year was recycled into the income statement in 2005 in the amount of CHF 5 million.

<b>Volumes of securitization of trade receivables</b>	<b>2005</b>	2004
CHF mn		
Trade receivables denominated in Euros	93	156
Trade receivables denominated in US dollars	95	85
<b>Total</b>	<b>188</b>	<b>241</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 ABS programs. Clariant retains the credit risk of the trade receivables 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.

## 29. Employee participation plans

During 2005, the former Clariant Executive Stock Option Plan (CESOP) and Management Stock Incentive Plan (MSIP) were replaced by a new incentive plan called Clariant Executive Bonus Plan (CEBP).

The number of shares to be granted under CEBP depends both on the performance of the Group and the performance of the Division/Function in which incentive plan members work.

The granted registered shares of Clariant Ltd become vested and are exercisable after 3 years.

The options granted under the former CESOP entitle the holder to acquire registered shares of Clariant Ltd (1 share per option) at a predetermined strike price. They become vested and are exercisable after 3 years and expire after 10 years. Under CEBP no options are granted.

The expense recorded in the income statement spreads the cost of each grant equally over the measurement period of one year and the

vesting period of three years. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for the vested amounts. As permitted by the transitional rules of IFRS 2, grants of options and shares prior to 7 November 2002 have not been restated.

During 2005 CHF 7 million (2004: CHF 8 million) for equity-settled share based payments and CHF 1 million for cash-settled share-based payments (2004: CHF 1 million) were charged to the income statement.

As of 31 December 2005 the total carrying value of liabilities arising from share-based payments is CHF 23 million (2004: CHF 15 million). Thereof CHF 20 million (2004: CHF 13 million) was recognized in equity for equity-settled share-based payments and CHF 3 million (2004: CHF 2 million) in non-current liabilities for cash-settled share-based payments.

### Options for Board of Directors (non-executive members) as at 31 December 2005

Base year	Granted	Exercisable from	Expiry date	Exercise price <sup>1</sup>	Share price at grant date <sup>2</sup>	Number 31.12.2005	Number 31.12.2004 <sup>3</sup>
1998	1998	2001	2008	53.80	56.76	10 137	10 137
1999	1999	2002	2009	61.80	60.76	10 418	10 418
2000	2000	2003	2010	48.00	47.97	6 229	6 229
<b>Total</b>						<b>26 784</b>	<b>26 784</b>

### Options for senior members of management as at 31 December 2005

Base year	Granted	Exercisable from	Expiry date	Exercise price <sup>1</sup>	Share price at grant date <sup>2</sup>	Number 31.12.2005	Number 31.12.2004 <sup>3</sup>
1997	1998	2001	2008	25.50	68.97	127 783	127 783
1997	1998	2001	2008	37.50	73.06	167 001	167 001
1998	1999	2002	2009	61.80	62.09	358 789	358 789
1999	2000	2003	2010	48.00	47.97	106 191	106 191
2000	2001	2004	2011	41.80	42.02	7 229	7 229
2001	2002	2005	2012	27.20	26.87	166 354	166 354
2002	2003	2006	2013	14.80	14.88	169 136	169 136
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	60 391	60 391
2004	2005	2008	2015	19.85	19.85	130 934	
<b>Total</b>						<b>1 343 134</b>	<b>1 212 200</b>

**Shares for Board of Directors (non-executive members) as at 31 December 2005**

Base year	Granted	Exercisable from	Share price at grant date <sup>2</sup>	Number 31.12.2005	Number 31.12.2004 <sup>3</sup>
2002	2002	2005	26.87	–	6 227
2003	2003	2006	14.88	13 163	15 863
2004	2004	2007	18.74	14 111	16 565
2005	2005	2008	19.85	17 634	–
<b>Total</b>				<b>44 908</b>	<b>38 655</b>

**Shares for members of management as at 31 December 2005**

Base year	Granted	Exercisable from	Share price at grant date <sup>2</sup>	Number 31.12.2005	Number 31.12.2004 <sup>3</sup>
2000	2001	2004	42.02	–	250
2001	2002	2005	26.87	–	294 794
2002	2003	2006	14.88	617 938	751 433
2003	2004	2007	18.74	317 028	370 018
2004	2005	2008	19.85	268 804	–
<b>Total</b>				<b>1 203 770</b>	<b>1 416 495</b>

<sup>1</sup> As a result of the capital increase in April 2004, the strike price of all options issued before April 2004 was modified by the adjustment factor of 0.8883.

<sup>2</sup> As a result of the capital increase in April 2004, the grant price of all options and shares granted before April 2004 was modified by the adjustment factor of 0.8883.

<sup>3</sup> In order to accommodate the dilution of the capital increase in April 2004, all members of the Employee Participation Plan received additional shares/options for the ones granted prior to April 2004.

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

	Weighted average exercise price	Options 2005	Shares 2005	Weighted average exercise price	Options 2004	Shares 2004
Shares/options outstanding at 1 January	38.08	1 238 984	1 455 150	44.02	947 998	1 350 847
Granted (incl. adjustment due to rights issue)	19.85	130 934	286 438	18.74	290 986	542 831
Exercised/distributed		–	- 487 549		–	- 420 605
Cancelled		–	- 5 361		–	- 17 923
<b>Outstanding at 31 December</b>	<b>36.34</b>	<b>1 369 918</b>	<b>1 248 678</b>	<b>38.08</b>	<b>1 238 984</b>	<b>1 455 150</b>
Exercisable at 31 December	44.90	960 131	–	48.61	793 777	250
Fair value of shares /options outstanding in CHF		3 444 599	24 161 919		3 289 750	26 702 003

The fair value of options granted during 2005 was CHF 1 million (2004: CHF 1 million) at grant date and calculated based on the Trinomial valuation method. The significant inputs into the model were share prices at grant date, exercise date and option life as indicated above. A volatility of 22% and a risk-free interest rate of 2.4% were assumed.

The fair value of shares granted during 2005 is CHF 6 million (2004: CHF 10 million) calculated based on market value of shares at grant date.

In addition to the Employee Participation Plan in 2005, a total of 198 000 Clariant shares with a fair value of CHF 3 million, were granted to relocatees as part of the restructuring program. This amount is charged to the income statement over the vesting period of three years.

### 30. Personnel expenses

CHF mn	2005	2004
Wages and salaries	- 1 521	- 1 528
Social welfare costs	- 310	- 271
Shares and options granted to directors and employees	- 8	- 9
Pension costs - defined contribution plans	- 34	- 34
Pension costs - defined benefit plans	- 75	- 131
Other post-employment benefits	- 4	- 6
<b>Total</b>	<b>- 1 952</b>	<b>- 1 979</b>

### 31. Related-party transactions

Clariant maintains business relationships with mainly two groups of related parties. One group consists of the associates, where the most important ones are described in note 6. The most important business with these companies is the purchase of services by Clariant (e.g. energy, rental of land and buildings) in Germany. In addition to this, Clariant exchanges services and goods with other parties which are associates, i.e. in which Clariant holds a stake of between 20% and 50%. The pricing of all exchanges of goods and services with these parties is at arm's length.

The second group of related parties is key management comprising the Board of Directors (non-executive members) and the Board of Management. More information on the relationship with the Board of Directors is given in the chapter **Corporate governance** (non-audited).

CHF mn	2005	2004
<b>Transactions with associates</b>		
Income from the sale of goods to related parties	28	49
Income from the rendering of services to related parties	12	21
Expenses from the purchase of goods from related parties	- 24	- 17
Expenses from services rendered by related parties	- 303	- 378
<b>Payables, receivables and loans</b>	<b>31.12.2005</b>	<b>31.12.2004</b>
Receivables from related parties	9	11
Payables to related parties	61	40
Loans to related parties	-	1
<b>Transactions with key management</b>		
Salaries and other short-term benefits	6	5
Termination benefits	1	4
Post-employment benefits	2	1
Share-based payments	1	1
<b>Total</b>	<b>10</b>	<b>11</b>
Number of granted shares in the reporting period	36 146	51 753
Number of granted options in the reporting period	118 244	49 326

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

## 32. Commitments and contingencies

**Leasing commitments.** The Group leases 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.

CHF mn	2005	2004
2005		75
2006	73	57
2007	56	46
2008	45	40
2009	32	32
2010	49	–
after 2010 (2004: after 2009)	37	39
<b>Total</b>	<b>292</b>	<b>289</b>
Guarantees in favor of third parties	60	31

Expenses for operating leases were CHF 85 million in 2005 and CHF 95 million in 2004.

**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 100 million (2004: CHF 85 million).

**Contingencies.** Clariant operates in countries where political, economic, social, legal and regulatory developments can have an impact on the operational activities. The effects of such risks on the Company's results, which arise during the normal course of business, are not foreseeable and are therefore not included in the accompanying financial statements.

In the ordinary course of business, Clariant is involved in lawsuits, claims, investigations and proceedings, including product liability, intellectual property, commercial, environmental, health and safety matters. Although the outcome of any legal proceedings cannot be predicted with certainty, management is of the opinion that there are no such matters pending which would be likely to have any material adverse effect in relation to its business, financial position or results of operations.

**Environmental risk.** Clariant is exposed to environmental liabilities and risks relating to its past operations, principally in respect of remediation costs. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties. The Group permanently monitors the various sites identified at risk for environmental exposure. Clariant believes that its provisions are adequate based upon currently available information, however given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred.

## 33. Exchange rates of principal currencies

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

	31.12.2005	31.12.2004
1 USD	1.31	1.13
1 GBP	2.27	2.18
100 JPY	1.12	1.10
1 EUR	1.56	1.54

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

	2005	2004
1 USD	1.24	1.25
1 GBP	2.26	2.28
100 JPY	1.13	1.15
1 EUR	1.55	1.54

### 34. Important subsidiaries and associates

Country	Company name	Participation %	Holding/ Finance	Sales	Production	Research
<b>Argentina</b>	Clariant (Argentina) SA, Buenos Aires	100.0		■	■	
<b>Australia</b>	Clariant (Australia) Pty. Ltd, Melbourne	100.0		■	■	
<b>Austria</b>	Clariant (Österreich) GmbH, Wien	100.0		■	■	
<b>Bangladesh</b>	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
<b>Belgium</b>	Clariant Benelux SA, Louvain-la-Neuve	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, Santiago de Chile	100.0		■	■	
<b>China</b>	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals Trading (Shanghai) Ltd, Shanghai	100.0		■		
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
	Tianjin Hua Shi Chemicals Co., Ltd, Tianjin	25.0		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Guangzhou Masterbatch Ltd, Guangzhou	100.0		■	■	
<b>Colombia</b>	Clariant (Colombia) SA, Santa Fé de Bogotá	100.0		■	■	
<b>Czech Republic</b>	Clariant CR s.r.o., Prague	100.0		■		
<b>Denmark</b>	Clariant (Denmark) A/S, Karise	100.0		■		
<b>Ecuador</b>	Clariant (Ecuador) S.A., Quito	100.0		■		
<b>Egypt</b>	Clariant (Egypt) SAE, Cairo	85.6		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
<b>Finland</b>	Clariant (Finland) Oy, Vantaa	100.0		■		
<b>France</b>	Clariant (France), Puteaux	100.0		■	■	■
	Clariant Huningue, Huningue	100.0		■	■	■
	Clariant Life Science Molecules (France) SAS, Puteaux	100.0		■	■	
<b>Germany</b>	Clariant Produkte (Deutschland) GmbH, Frankfurt	100.0		■	■	■
	Clariant Masterbatch (Deutschland) GmbH, Lahnstein	100.0		■	■	■
	Clariant Verwaltungsgesellschaft mbH, Frankfurt	100.0	■			
<b>Great Britain</b>	Clariant Holdings UK Ltd, Horsforth/Leeds	100.0	■			
	Clariant 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>Hungary</b>	Clariant Hungaria Kft, Budapest	100.0		■		
<b>India</b>	BTP India Private Ltd, Chennai	100.0		■	■	■
	Clariant (India) Ltd, Mumbai	50.9		■	■	■
	Colour-Chem Ltd, Mumbai	70.1		■	■	■
<b>Indonesia</b>	PT Clariant Indonesia, Tangerang	100.0		■	■	
<b>Ireland</b>	Masterplast Limited, Naas	100.0		■	■	
<b>Italy</b>	Clariant (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Holding (Italia) S.p.A., Milan	100.0	■			
	Clariant Life Science Molecules (Italia) S.p.A., Milan	100.0		■	■	■

Country	Company name	Participation %	Holding/ Finance	Sales	Production	Research
<b>Japan</b>	Clariant (Japan) K.K., Tokyo	100.0		■	■	■
<b>Korea</b>	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Sang Ho Ltd, Yangsan-Si	100.0		■	■	
	Clariant Songwon Color Co. Ltd, Ulsan	99.8		■	■	
<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		■	■	
	Clariant Productos Químicos S.A. de C.V., Ecatepec de Morelos	100.0			■	
<b>Morocco</b>	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
<b>Netherlands</b>	Dick Peters BV, Denekamp	100.0		■	■	
<b>New Zealand</b>	Clariant (New Zealand) Ltd, Albany-Auckland	100.0		■	■	
<b>Norway</b>	Clariant (Norge) AS, Bergen	100.0		■		
<b>Pakistan</b>	Clariant Pakistan Ltd, Korangi, Karachi	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>	Clariant Polska Sp. z.o.o., Warsaw	100.0		■		
<b>Portugal</b>	Clariant Químicos (Portugal) Lda, Porto	100.0		■		
<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 S.A., 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 Produkte (Schweiz) AG, Muttenz	100.0			■	■
	Clariant International AG, Muttenz	100.0	■			
<b>Taiwan</b>	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
<b>Thailand</b>	Clariant Chemicals (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Bangkok	100.0		■	■	
<b>Tunisia</b>	Clariant Tunisie SA, Cherguia-Tunis	49.9		■		
<b>Turkey</b>	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
<b>UAE</b>	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
<b>USA</b>	Clariant Corporation, Charlotte, NC	100.0		■	■	■
	Clariant Life Science Molecules (America) Inc., Elgin, SC	100.0		■	■	■
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL	100.0		■	■	■
	Clariant Life Science Molecules (Missouri) Inc., Springfield, MO	100.0		■	■	
<b>Venezuela</b>	Clariant Venezuela S.A., Maracay	100.0		■	■	
<b>Vietnam</b>	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0		■	■	

### **35. Events subsequent to the balance sheet date**

In February 2006, KiON, a US corporation, was acquired with a purchase price of approximately CHF 17 million. The activities of this business will be integrated into the Pigments & Additives Division. The process of allocation of the purchase price to the identified assets and liabilities acquired had still to be finalized while this Annual Report was being prepared for publishing.

## Report of the Group auditors

### **Report of the Group auditors to the general meeting of Clariant Ltd, Muttenz**

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes – pages 60 to 106) of the Clariant Group for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers AG

D. Suter Dr. M. Jeger

Basel, 24 February 2006

## Review of trends

### Five-year Group overview

Five-year Group overview 2001–2005		2005	2004 (restated)	2004	2003	2002	2001
<b>Divisional sales</b>	CHF mn	<b>8 261</b>	8 772	8 772	8 783	9 606	10 195
Change relative to preceding year							
in Swiss francs	%	- 6	0	0	- 9	- 6	- 7
in local currency	%	- 8	2	2	- 4	2	- 2
<b>Group sales<sup>1</sup></b>	CHF mn	<b>8 181</b>	8 530	8 530	8 516	9 330	9 871
Change relative to preceding year							
in Swiss francs	%	- 4	0	0	- 9	- 5	- 7
in local currency	%	- 6	2	2	- 4	3	- 2
<b>Operating income before restructuring, disposals and amortization of goodwill</b>	CHF mn	<b>516</b>	636	633	611	690	631
Change relative to preceding year							
as a % of sales	%	- 19	4	4	- 11	9	- 44
		6.3	7.5	7.4	7.2	7.4	6.4
<b>Operating income after restructuring, disposals and amortization of goodwill</b>	CHF mn	<b>368</b>	533	530	559	- 202	- 877
Change relative to preceding year							
as a % of sales	%	- 31	- 5	- 5	–	–	–
		4.5	6.2	6.2	6.6	- 2.2	- 8.9
<b>EBITDA after restructuring and disposals</b>	CHF mn	<b>710</b>	918	915	1 119	1 193	1 395
Change relative to preceding year							
as a % of sales	%	- 23	- 18	- 18	- 6	- 14	- 16
		8.7	10.8	10.7	13.1	12.8	14.1
<b>Net income</b>	CHF mn	<b>192</b>	159	157	173	- 639	- 1 233
Change relative to preceding year							
as a % of sales	%	23	- 8	- 9	–	–	–
		2.3	1.9	1.8	2.0	- 6.8	- 12.5
<b>Investment in PPE</b>	CHF mn	<b>348</b>	289	289	301	339	505
Change relative to preceding year							
as a % of sales	%	20	- 4	- 4	- 11	- 33	- 6
		4	3	3	4	4	5
<b>Personnel costs</b>	CHF mn	<b>1 952</b>	1 979	1 979	2 009	2 097	2 346
Change relative to preceding year							
as a % of sales	%	- 1	- 1	- 1	- 4	- 11	- 2
		24	23	23	24	22	24
Employees at year-end	number	23 383	24 769	24 769	27 008	27 849	28 904
Change relative to preceding year							
	%	- 6	- 8	- 8	- 3	- 4	- 8

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

Trend in Group sales by division	2005		2004		2003		2002		2001 <sup>1</sup>	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 192	27	2 203	26	2 179	26	2 769	30	2 965	30
Pigments & Additives	1 879	23	1 828	21	1 745	20	1 814	19	1 872	19
Functional Chemicals	2 083	25	1 977	23	2 033	24	2 102	23	2 183	23
Life Science Chemicals	883	11	1 414	17	1 518	18	1 618	17	1 616	17
Masterbatches	1 144	14	1 108	13	1 041	12	1 027	11	1 038	11
<b>Total divisions</b>	<b>8 181</b>	<b>100</b>	<b>8 530</b>	<b>100</b>	<b>8 516</b>	<b>100</b>	<b>9 330</b>	<b>100</b>	<b>9 674</b>	<b>100</b>
Other (mainly trading activities)	–		–		–		–		197	
<b>Total Group</b>	<b>8 181</b>		<b>8 530</b>		<b>8 516</b>		<b>9 330</b>		<b>9 871</b>	

<sup>1</sup> Restated

Trend in Group sales by region	2005		2004		2003		2002		2001	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	4 111	50	4 214	49	4 239	50	4 564	49	4 867	49
The Americas	2 269	28	2 257	27	2 213	26	2 683	29	2 863	29
Asia/Australia/Africa	1 801	22	2 059	24	2 064	24	2 083	22	2 141	22
<b>Total</b>	<b>8 181</b>	<b>100</b>	<b>8 530</b>	<b>100</b>	<b>8 516</b>	<b>100</b>	<b>9 330</b>	<b>100</b>	<b>9 871</b>	<b>100</b>

*Financial statements of Clariant Ltd, Muttenz*

**Clariant Ltd balance sheets**

at 31 December 2005 and 2004

Assets	2005		2004	
	CHF	%	CHF	%
<b>Non-current assets</b>				
Shareholdings in Group companies	1 954 646 642		1 593 892 981	
Loans to Group companies	1 358 913 816		1 440 850 262	
Intangible fixed assets	1 479 346		4 210 214	
<b>Total non-current assets</b>	<b>3 315 039 804</b>	<b>90.5</b>	<b>3 038 953 457</b>	<b>62.9</b>
<b>Current assets</b>				
Receivables from Group companies	210 790 456		468 919 596	
Other receivables	53 681 139		48 275 366	
Accrued income	5 285		2 178 938	
Marketable securities	69 684 631		57 296 059	
Cash and cash equivalents	11 856 468		1 216 179 842	
<b>Total current assets</b>	<b>346 017 979</b>	<b>9.5</b>	<b>1 792 849 801</b>	<b>37.1</b>
<b>Total assets</b>	<b>3 661 057 783</b>	<b>100.0</b>	<b>4 831 803 258</b>	<b>100.0</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
<b>Total share capital</b>	<b>1 093 260 000</b>		<b>1 150 800 000</b>	
<b>Reserves</b>				
General reserves	646 595 631		646 595 631	
Reserve for treasury shares	111 542 072		102 374 212	
Free reserves	282 568 845		105 479 978	
<b>Total reserves</b>	<b>1 040 706 548</b>		<b>854 449 821</b>	
<b>Unappropriated earnings</b>				
Balance from prior year	0		0	
Net income	229 550 139		186 256 727	
<b>Total unappropriated earnings</b>	<b>229 550 139</b>		<b>186 256 727</b>	
<b>Total Equity</b>	<b>2 363 516 687</b>	<b>64.6</b>	<b>2 191 506 548</b>	<b>45.4</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Straight bonds	558 650 000		718 110 000	
Other non-current liabilities	1 000		368 050 000	
<b>Total non-current liabilities</b>	<b>558 651 000</b>	<b>15.2</b>	<b>1 086 160 000</b>	<b>22.5</b>
<b>Current liabilities</b>				
Provisions	3 184 104		2 340 635	
Liabilities to Group companies	236 998 502		898 478 826	
Other liabilities	476 352 198		560 233 144	
Accrued expenses	22 355 292		93 084 105	
<b>Total current liabilities</b>	<b>738 890 096</b>	<b>20.2</b>	<b>1 554 136 710</b>	<b>32.1</b>
<b>Total liabilities</b>	<b>1 297 541 096</b>	<b>35.4</b>	<b>2 640 296 710</b>	<b>54.6</b>
<b>Total equity and liabilities</b>	<b>3 661 057 783</b>	<b>100.0</b>	<b>4 831 803 258</b>	<b>100.0</b>

## Clariant Ltd income statements

for the years ended 31 December 2005 and 2004

	2005 CHF	2004 CHF
<b>Income</b>		
Income from financial assets	260 953 051	465 460 504
Income from cash, marketable securities and short-term deposits	15 579 500	31 993 034
Financial income	90 862 338	
Other income	39 188 026	69 817 533
<b>Total income</b>	<b>406 582 915</b>	<b>567 271 071</b>
<b>Expenses</b>		
Financial expenses	145 351 544	200 874 300
Administrative expenses	2 987 484	2 106 130
Depreciation of financial fixed assets		149 350 000
Other expenses (including taxes)	28 693 748	28 683 914
<b>Total expenses</b>	<b>177 032 776</b>	<b>381 014 344</b>
<b>Net income</b>	<b>229 550 139</b>	<b>186 256 727</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 fixed assets.** These are valued at acquisition cost less adjustments for impairment of value.

**Provisions.** Provisions are made to cover existing liabilities.

### 2. Financial assets

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

### 3. Cash, marketable securities and current financial assets

Securities include treasury shares valued at fair market value in the amount of CHF 70 million (prior year CHF 57 million) (see also note 6).

After a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, there were no write downs of investments in these companies (prior year CHF 149 million).

### 4. Repayment of share capital

On 7 April 2005 the Annual General Meeting approved the repayment of share capital in the amount of CHF 57 540 000.

Paid-in share capital was decreased by CHF 57 540 000 to a total of CHF 1 093 260 000.

### 5. Share capital

	31.12.2005	31.12.2004
Number of registered shares each with a par value of CHF 4.75 (2004: CHF 5)	230 160 000	230 160 000
In CHF	1 093 260 000	1 150 800 000
Conditional Capital	31.12.2005	31.12.2004
Number of registered shares each with a par value of CHF 4.75 (2004: CHF 5)	8 000 000	8 000 000
In CHF	38 000 000	40 000 000

### 6. Treasury shares (number with a par value of CHF 4.75 each [2004: CHF 5])

	2005	2004
Holdings on 1 January	3 122 401	3 532 869
Shares bought at market value	1 060 000	721 642
Shares sold at market value	- 150 000	- 800 000
Shares to employees	- 431 128	- 332 110
<b>Holdings on 31 December</b>	<b>3 601 273</b>	<b>3 122 401</b>

The average price of shares bought in 2005 was CHF 19.81 (2004: CHF 13.54).

The average price of shares sold in 2005 was CHF 19.58 (2004: CHF 17.76).

## 7. Reconciliation of equity

CHF	Share capital	General reserves	Reserve for treasury shares	Free reserves	Unappropriated earnings	Total
<b>Balance 31.12.2004</b>	<b>1 150 800 000</b>	<b>646 595 631</b>	<b>102 374 212</b>	<b>105 479 978</b>	<b>186 256 727</b>	<b>2 191 506 548</b>
Treasury share transactions			9 167 860	- 9 167 860		0
Appropriation of profit/loss carried forward to reserves				186 256 727	- 186 256 727	0
Repayment of share capital	- 57 540 000					- 57 540 000
Net income					229 550 139	229 550 139
<b>Balance 31.12.2005</b>	<b>1 093 260 000</b>	<b>646 595 631</b>	<b>111 542 072</b>	<b>282 568 845</b>	<b>229 550 139</b>	<b>2 363 516 687</b>

## 8. Straight bonds

CHF thousand	Interest rate	Term	Amount 31.12.2005	Amount 31.12.2004
Straight bond	4.125	1996-2006	159 460	159 460
Straight bond	3.750	1997-2007	174 610	174 610
Straight bond	3.000	1998-2005		200 605
Straight bond	4.250	2000-2008	384 040	384 040
<b>Total</b>			<b>718 110</b>	<b>918 715</b>

## 9. General reserves

The general reserves must be at least 20% of the share capital of Clariant Ltd as this is the minimum amount required by the Swiss Code of Obligations.

## 10. Reserve for treasury shares

Clariant Ltd has met the legal requirements for treasury shares required by the Swiss Code of Obligations.

## 11. Contingent liabilities

CHF mn	Outstanding liabilities 31.12.2005	Outstanding liabilities 31.12.2004
Outstanding liabilities as guarantees in favor of Group companies		754
Outstanding liabilities as guarantees in favor of third parties	39	39

## 12. Voting and legal registration limitations

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

In accordance with Article 12 of the Articles of Incorporation, each share has the right to one vote. A shareholder can only vote for his own shares and for represented shares up to a maximum of 10% of total share capital.

## 13. Shareholders holding 5 percent or more of total share capital

Based on the information available at the time of this report, there were no shareholders with more than 5% of the share capital at 31 December 2005. At 31 December 2004 Artisan Partners Ltd. Partnership, Milwaukee, Wisconsin (USA), owned 10.01% of the share capital.

## Appropriation of available earnings

The Board of Directors proposes to transfer the net income of the year in the amount of CHF 229 550 139 to free reserves.

<b>Available unappropriated earnings</b>	CHF
Balance from prior year	0
Net income of the year	229 550 139
<b>Total available unappropriated earnings</b>	<b>229 550 139</b>

  

<b>Appropriation</b>	CHF
Transfer to free reserves	- 229 550 139
<b>Balance to be carried forward</b>	<b>0</b>

## Proposed payout of nominal value reduction

The Board of Directors proposes to repay CHF 0.25 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 4.75 to CHF 4.50 per registered share. The proposed payout would reduce the share capital by CHF 57 540 000. The proposed payout of the nominal value reduction of CHF 0.25 each is expected on 22 June 2006, subject to approval by the ordinary General Meeting of shareholders and subject to the fulfillment of the necessary requirements and the entry of the share capital reduction in the Commercial Register of the Canton of Baselland.

## Report of the statutory auditors

### **Report of the statutory auditors to the general meeting of Clariant Ltd, Muttenz**

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 110 to 113) of Clariant Ltd for the year ended 31 December 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Dr. M. Jeger      Ph. Speck

Basel, 24 February 2006

## **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.