

Financial Statements

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OF THE CLARIANT GROUP**

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP**CONSOLIDATED BALANCE SHEETS** at 31 December 2007 and 2006

ASSETS	¹ Notes	31.12.2007		31.12.2006	
		CHF mn	%	CHF mn	%
Non-current assets					
Property, plant and equipment	4	2 401		2 422	
Intangible assets	5	339		335	
Investments in associates	6	294		288	
Financial assets	7	17		63	
Prepaid pension assets	15	122		90	
Deferred income tax assets	8	113		89	
Total non-current assets		3 286	45.1	3 287	45.7
Current assets					
Inventories	9	1 477		1 513	
Trade receivables	10	1 449		1 446	
Other current assets	11	535		378	
Cash and cash equivalents	12	509		443	
Current income tax receivables		29		24	
Total current assets		3 999	54.9	3 804	52.9
Non-current assets held for sale	22	–	0.0	97	1.4
Total assets		7 285	100.0	7 188	100.0
EQUITY AND LIABILITIES					
	¹ Notes	CHF mn	%	CHF mn	%
Equity					
Share capital	13, 28	978		1 035	
Treasury shares (par value)	13, 28	– 16		– 16	
Other reserves	28	642		648	
Retained earnings	28	709		706	
Total capital and reserves attributable to Clariant shareholders		2 313		2 373	
Minority interests	28	59		60	
Total equity	28	2 372	32.6	2 433	33.8
Liabilities					
Non-current liabilities					
Financial debts	14	1 267		1 376	
Deferred income tax liabilities	8	179		183	
Retirement benefit obligations	15	515		495	
Provision for non-current liabilities	16	231		244	
Total non-current liabilities		2 192	30.0	2 298	32.0
Current liabilities					
Trade payables	17	1 321		1 207	
Financial debts	18	728		623	
Current income tax liabilities		244		215	
Provision for current liabilities	19	428		351	
Total current liabilities		2 721	37.4	2 396	33.3
Liabilities directly associated with non-current assets held for sale	22	–	0.0	61	0.9
Total liabilities		4 913	67.4	4 755	66.2
Total equity and liabilities		7 285	100.0	7 188	100.0

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

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

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

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

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

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

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

² Restated (see Note 1.07).

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

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

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

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

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

Changes in fair value of financial assets classified as available for sale amount to less than CHF 1 million in 2006 and 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.01 – GENERAL INFORMATION

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

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

The Board of Directors has approved the consolidated financial statements for issue on 12 February 2008. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for 10 April 2008.

1.02 – BASIS OF PREPARATION

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

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

1.03 – INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN 2007

In 2005 the IASB issued IFRS 7, Financial Instruments: Disclosures, and the complementary amendment to IAS 1, Presentation of financial statements – capital disclosures, which became effective as of 1 January 2007. This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The standard was adopted as of 1 January 2007 and comparable information was restated. As it covers disclosure requirements only, it did not have any impact on the classification and valuation of the Group’s financial instruments.

In 2005 the IASB issued IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, which became effective as of March 2006. This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities has a currency of a hyperinflationary economy as its functional currency, this interpretation did not have any impact on the Group’s accounts.

In 2006 the IASB issued IFRIC 8, Scope of IFRS 2 which became effective as of 1 May 2006: This interpretation requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether or not they fall within the scope of IFRS 2. The Group has applied this interpretation from 1 January 2007, but it did not have any impact on the Group’s accounts.

In 2006 the IASB issued IFRIC 9, Reassessment of Embedded Derivatives which became effective as of 1 June 2006. This interpretation requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group has applied this interpretation since 1 January 2007, but it did not have any impact on the Group’s accounts.

In 2006 the IASB issued IFRIC 10, Interim Financial Reporting and Impairment, which became effective as of 1 November 2006): This interpretation prohibits the reversal of impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost, at a subsequent balance sheet date. The Group has applied this interpretation since 1 January 2007, but it did not have any impact on the Group's accounts.

1.04 – INTERNATIONAL FINANCIAL REPORTING STANDARDS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not early adopted, as follows:

- ▶ IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. This standard requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. This new requirement could have an impact on the segments presented, the items reported and their respective measurement. The Group has not undergone a thorough analysis and therefore no final assessment of the impact can presently be made. The Group will apply this standard from 1 January 2009.
- ▶ IAS 23 (revised), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). This revised standard requires that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalized as part of the cost of that asset. The Group estimates that this new accounting treatment of borrowing costs will reduce its finance costs and increase depreciation.
- ▶ IAS 1 (revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). This revised standard requires the presentation in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

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

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

- ▶ IFRS 2 (amended) (effective for accounting periods beginning on or after 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Whether this new requirement will impact the Group's accounting policies is currently under investigation.
- ▶ IFRS 3 (revised), Business combinations requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. These new requirements may impact significantly Group's accounting policies for future business combinations.
- ▶ IAS 27 (amended) (effective for accounting periods beginning on or after 1 July 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These new requirements could impact the accounting for future transactions with non-controlling interest formerly minority interest.
- ▶ IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007): This interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled payment transaction, regardless of how the equity instruments are obtained. The Group will apply this interpretation from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

- › IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008): This interpretation addresses how service operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. This interpretation is not expected to have any impact on the Group's accounts.
- › IFRIC 13, Customer loyalty programs (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points of free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not expected to have any impact on the Group's accounts.
- › IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. Clariant is currently assessing the impact of this interpretation on the Group's accounts.

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

1.05 – SCOPE OF CONSOLIDATION

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

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

- › **Transactions with minority interests:** The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.
- › **Investments in associates:** Associates are entities where the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

1.06 – PRINCIPLES AND METHODS OF CONSOLIDATION

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

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

1.07 – RECLASSIFICATION

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

1.08 – REVENUE RECOGNITION

Sales of goods are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Provisions for rebates to customers are recognized in the same period that the related sales are recorded, based on the contract terms.

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

1.09 – EXCHANGE RATE DIFFERENCES

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

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

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

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

1.10 – PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

1.11 – INTANGIBLE ASSETS

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

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

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

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

1.12 – IMPAIRMENT OF ASSETS

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

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

1.13 – INVENTORIES

Purchased goods are valued at acquisition costs, while self-manufactured products are valued at manufacturing costs including related production overhead costs. Borrowing costs are excluded. Inventory held at the balance sheet date is primarily valued at standard cost, which approximates actual costs on a weighted average basis. This valuation method is also used for valuing the cost of goods sold in the income statement. Adjustments are made for inventories with a lower net realizable value. Unsaleable inventories are fully written off. These adjustments are recorded as provisions, which are deducted directly from the inventory value in the balance sheet. The provisions are reversed when the inventories concerned are either sold or destroyed and as a consequence are removed from the balance sheet.

1.14 – TRADE RECEIVABLES

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

1.15 – CASH AND CASH EQUIVALENTS

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

1.16 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

On the date a derivative contract is entered into, Clariant designates certain derivatives as either *a*) a hedge of the fair value of a recognized asset or liability (fair value hedge), *b*) a hedge of a forecast transaction (cash flow hedge) or firm commitment or *c*) a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives in fair value hedges that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges are recognized as a hedging reserve in shareholders' equity. Where the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as income or expense in the same period in which the forecast transaction affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

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

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

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

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

1.17 – LEASES

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

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

1.18 – CURRENT INCOME TAX

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

1.19 – DEFERRED INCOME TAX

Deferred income tax is calculated using the comprehensive liability method. This method calculates a deferred tax asset or liability on the temporary differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and the one prepared for consolidation purposes. An excep-

tion is that no deferred income tax is calculated for the temporary differences in investments in Group companies and associates, provided that the investor (parent company) is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Furthermore, withholding taxes or other taxes on the eventual distribution of retained earnings of Group companies are only taken into account when a dividend has been planned, since generally the retained earnings are reinvested.

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

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

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

1.20 – EQUITY COMPENSATION BENEFITS

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

1.21 – OBLIGATIONS FOR PENSIONS AND SIMILAR EMPLOYEE BENEFITS

Group companies operate various pension schemes. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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

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

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

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

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

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

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

1.22 – PROVISIONS

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

1.23 – RESEARCH AND DEVELOPMENT

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

1.24 – SEGMENT REPORTING

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

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

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

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

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

The **Functional Chemicals Division's** products are based on surfactants and polymers. The Detergents Business, which offers anionic and cationic surfactants, as well as bleach activators, is a partner to the detergent industry. Performance Chemicals supplies such different industries as personal care products, crop protection, paints, lacquers and plastics. The Process Chemicals Business markets products for the production and refining of oil and natural gas and for metal-working, mining and the aerospace and automotive industry. Since 1 January 2007 the division also comprises the activities of Specialty Fine Chemicals which were formerly a part of the Life Science Chemicals Division. That division was dissolved at the end of 2006 when the biggest part of its activities were sold. Comparable information was restated.

The **Masterbatches Division** supplies color and additive concentrates and special mixtures of these components used by manufacturers of plastic goods. These products are supported by value-

added services that help customers deal with such issues as complex local and international regulations, multicontinent manufacturing, speed-to-market, pricing pressures and the demands of progressively more sophisticated consumers.

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

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

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

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

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

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

1.25 – TREASURY SHARES

Treasury shares are deducted from equity at their par value of CHF 4.25 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares are recorded in retained earnings.

1.26 – DIVIDEND DISTRIBUTION

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

1.27 – NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. In non-current assets held for sale Clariant reports assets and associated liabilities of the Custom Manufacturing activities for 2006.

1.28 – SHARE CAPITAL

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

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

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

1.29 – FINANCIAL DEBT

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

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

1.30 – INVESTMENTS

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

› **Financial assets at fair value through profit or loss:** This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if

acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months of the balance sheet date.

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

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

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

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

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

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

1.31 – EMISSION RIGHTS

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

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

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

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

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

2. FINANCIAL RISK MANAGEMENT

2.1 – FINANCIAL RISK FACTORS

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

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

MARKET RISK

FOREIGN EXCHANGE RISK

› **Exposure to foreign exchange risk:** The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the Euro and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations, when they are denominated in a currency that is not the respective subsidiary's functional currency.

› **Foreign exchange risk management:** To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward contracts and FX options, according to the Group's foreign exchange risk policy. Group Treasury is responsible, in close co-ordination with the Group's operating units, for managing the net position in each foreign currency by performing appropriate hedging actions.

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

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

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

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

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

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

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

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

INTEREST RATE RISK

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

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

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

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

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

OTHER PRICE RISK

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

CREDIT RISK

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

- > **Credit risk management:** The Group has a Group credit risk policy in place to ensure that sales of products are made to customers only after an appropriate credit limit allocation process.

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

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

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

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

LIQUIDITY RISK

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

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

2012 the outstanding debt position of around CHF 300 million is driven by a repayment of a CHF 250 million bond due in April and interest payments about CHF 50 million during the year. The repayment of the EUR 600 million bond including the linked interest payments will become due in 2013.

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

2.2 – FAIR VALUE ESTIMATION

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

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

2.3 – CAPITAL RISK MANAGEMENT

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

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

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

The Group is not subject to externally imposed capital requirements.

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(1) ESTIMATED IMPAIRMENT OF GOODWILL AND PROPERTY, PLANT AND EQUIPMENT

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

(2) ENVIRONMENTAL LIABILITIES

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

(3) INCOME AND OTHER TAXES

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

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

(4) ESTIMATES FOR THE ACCOUNTING FOR EMPLOYEE BENEFITS

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

4. PROPERTY, PLANT AND EQUIPMENT

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total	Insured value at 31 December
At 1 January 2006							
Cost	619	2 480	5 088	526	215	8 928	
Accumulated depreciation	-156	-1 652	-4 067	-448		-6 323	
Net book value	463	828	1 021	78	215	2 605	
Additions	1	29	110	17	201	358	
Acquisitions	1	6	8	1	1	17	
Reclassifications	9	35	213	13	-270	-	
Reclassified to held for sale			-1			-1	
Disposals	-28	-63	-53	-4	-28	-176	
Depreciation		-60	-180	-29		-269	
Impairment	-50	-9	-59	-1	-8	-127	
Exchange rate differences	1	1	8		5	15	
At 31 December 2006	397	767	1 067	75	116	2 422	
Cost	564	2 357	5 020	501	124	8 566	
Accumulated depreciation	-167	-1 590	-3 953	-426	-8	-6 144	
Net book value	397	767	1 067	75	116	2 422	9 571
Additions		23	82	13	194	312	
Acquisitions			2			2	
Reclassifications		34	122	10	-166	-	
Reclassified to held for sale					-5	-5	
Disposals	-6	-12	-9	-1	-1	-29	
Depreciation		-60	-178	-26		-264	
Impairment	-10	-25	-39	-1	-3	-78	
Reversal of impairment			1			1	
Exchange rate differences	11	15	13	1	-	40	
At 31 December 2007	392	742	1 061	71	135	2 401	
Cost	570	2 429	4 789	494	151	8 433	
Accumulated depreciation	-178	-1 687	-3 728	-423	-16	-6 032	
Net book value	392	742	1 061	71	135	2 401	9 237

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

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

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

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Finance lease liability – minimum lease payments:

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

The present value of finance lease liabilities is as follows:

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

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

5. INTANGIBLE ASSETS

CHF mn	Goodwill	Other	Total
At 1 January 2006			
Cost	403	122	525
Accumulated amortization		-107	-107
Net book value	403	15	418
Additions	5	4	9
Acquisitions		18	18
Disposals		-1	-1
Amortization		-7	-7
Impairment	-100		-100
Exchange rate differences	-2		-2
At 31 December 2006	306	29	335
Cost	406	136	542
Accumulated amortization	-100	-107	-207
Net book value	306	29	335
Additions		8	8
Acquisitions		5	5
Amortization		-9	-9
At 31 December 2007	306	33	339
Cost	406	146	552
Accumulated amortization	-100	-113	-213
Net book value	306	33	339

The amount reported as goodwill is the result of a number of acquisitions in various divisions. All goodwill is tested annually for impairment. Other intangibles comprise patents, trademarks and software etc. Clariant does not have any internally generated intangible assets. Amortization of intangibles is recorded in Administration and general overhead costs in the income statement.

Additions to the carrying amount of goodwill in 2006 mainly include CHF 3 million arising from the purchase of the Masterbatch activities from Ciba Specialty Chemicals. The remaining addition of CHF 2 million arose from smaller acquisitions in France, the USA and India.

Goodwill is allocated to the following CGU's:

CHF mn	31.12.2007	31.12.2006
Textiles	6	6
Leather	231	231
Pigments & Additives	27	27
Masterbatches	35	35
Functional Chemicals	7	7
Net book value	306	306

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a four-year period. No further growth is assumed beyond this four-year period. The main assumption used for cash flow projections were EBITDA in percent of sales and sales growth. The assumptions regarding these two variables are based on Management's past experience and future expectations of business performance. The pre-tax discount rates used are based on the Group's weighted average cost of capital adjusted for specific country risks associated with the cash flow projections. The assumed discount rate was 10.0% for all cash generating units (2006: 9.0%).

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

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

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

The CGU Textiles holds goodwill in the amount of CHF 6 million. The net assets of this CGU were also tested for impairment and deemed recoverable. The recoverable amount would be equal to the carrying amount if the assumed annual sales growth rate were reduced by 0.7%, or alternatively, if the operating margin were reduced by 0.6% of sales. If the assumed annual growth rate were reduced by one percentage point the carrying amount would exceed the recoverable amount of the CGU's net assets by CHF 45 million. If raw material costs were assumed to be one percentage point of sales higher the carrying amount of the net assets would exceed the recoverable amount by CHF 52 million.

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

6. INVESTMENTS IN ASSOCIATES

CHF mn	2007	2006
Beginning of the year	288	282
Acquisitions	3	1
Disposals	-13	-6
Share of profit	37	35
Dividends received	-30	-22
Exchange rate differences	9	-2
End of the year	294	288

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

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
2006						
Infraserv GmbH & Co. Höchst KG	Germany	1 229	705	1 324	56	32
Infraserv GmbH & Co. Gendorf KG	Germany	197	97	355	11	50
Infraserv GmbH & Co. Knapsack KG	Germany	173	73	239	-1	21
Others		102	44	179	-	-
Total		1 701	919	2 097	66	
2007						
Infraserv GmbH & Co. Höchst KG	Germany	1 457	874	1 473	58	32
Infraserv GmbH & Co. Gendorf KG	Germany	221	120	404	12	50
Infraserv GmbH & Co. Knapsack KG	Germany	195	87	304	10	21
Others		166	60	242	17	
Total		2 039	1 141	2 423	97	

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

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

7. FINANCIAL ASSETS

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

Financial assets include the following:

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

Financial assets are denominated in the following currencies:

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

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

The carrying amounts of these assets are classified as follows:

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

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

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

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

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

8. TAXES

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

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

	2007		2006	
	CHF mn	%	CHF mn	%
Income before tax	207		275	
Expected tax expense/rate¹	-57	27.5	-74	26.9
Effect of taxes on items not tax-deductible	-47	22.7	-57	20.7
Effect of utilization and changes in recognition of tax losses and tax credits	33	-15.9	-11	4.0
Effect of tax losses and tax credits of current year not recognized	-32	15.5	-8	2.9
Effect of adjustments to current taxes due to prior periods	-8	3.9	6	-2.2
Effect of tax exempt income	8	-3.9	6	-2.2
Effect of other items	4	-1.9	-6	2.2
Effective tax expense/rate	-99	47.8	-144	52.4

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

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

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

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

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

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

Of the deferred tax assets capitalized CHF 20 million refer to tax losses of the French subsidiaries (2006: CHF 20 million), CHF 13 million to tax losses of the Italian subsidiaries (2006: CHF 20 million) and CHF 20 million to tax losses of the US subsidiaries (2006: CHF 0 million). Clariant considers it probable that these tax losses can be recovered as a result of the efforts made both in the restructuring program and in the implementation of the new Principal structure.

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 376 million at 31 December 2007 (CHF 725 million at 31 December 2006).

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

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

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

CHF mn	31.12.2007	31.12.2006
Unrecognized tax credits	48	8

The tax credits expire between 2008 and 2013.

9. INVENTORIES

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

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

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

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

10. TRADE RECEIVABLES

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

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

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

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

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

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

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

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

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

10. TRADE RECEIVABLES (CONTINUED)

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

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

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

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

11. OTHER CURRENT ASSETS

Other current assets include the following:

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

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

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

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

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

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

Other receivables are denominated in the following currencies:

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

Current financial assets are denominated in the following currencies:

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

12. CASH AND CASH EQUIVALENTS

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

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

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

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

13. CHANGES IN SHARE CAPITAL AND TREASURY SHARES

Registered shares each with a par value of CHF 4.25 (2006: CHF 4.50)	Number of shares 2007	Par value 2007	<i>Number of shares 2006</i>	<i>Par value 2006</i>
		<i>CHF mn</i>		<i>CHF mn</i>
At 1 January	230 160 000	978	230 160 000	1 035
At 31 December	230 160 000	978	230 160 000	1 035
Treasury shares	-3 792 691	-16	-3 511 698	-16
Outstanding capital at 31 December	226 367 309	962	226 648 302	1 019
Treasury shares (number of shares)			2007	<i>2006</i>
Holdings at 1 January			3 511 698	3 867 293
Shares purchased at fair market value			1 470 000	
Shares purchased on exercise of put options				750 000
Shares sold at fair market value			-880 000	-500 000
Shares transferred to employees			-309 007	-605 595
Holdings at 31 December			3 792 691	3 511 698

All shares are duly authorized and fully paid in.

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

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

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

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

14. NON-CURRENT FINANCIAL DEBTS

<i>CHF mn</i>	<i>Interest rate in %</i>	<i>Term</i>	Notional amount	Net amount 31.12.2007	<i>Net amount 31.12.2006</i>
Straight bonds	3.750	1997–2007	200 CHF mn		175
Straight bonds	4.250	2000–2008	500 CHF mn	384	384
Straight bonds	3.125	2007–2012	250 CHF mn	250	–
Straight bonds	4.375	2006–2013	600 EUR mn	994	961
Total straight bonds				1 628	1 520
Liabilities to banks and other financial institutions¹				9	21
Obligations under finance leases				14	14
Subtotal				1 651	1 555
Less current portion				–384	–179
Total				1 267	1 376
Breakdown by maturity			2008		392
			2009	7	8
			2010	2	–
			2011		–
			2012	251	–
			thereafter	1 007	976
Total				1 267	1 376
Breakdown by currency			CHF	251	384
			EUR	1 007	977
			other	9	15
Total				1 267	1 376
Fair value comparison (including current portion)					
Straight bonds				1 549	1 509
Others				23	35
Total				1 572	1 544
Total net book value of assets pledged as collateral for financial debts				33	114
Total collateralized financial debts				18	17

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

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

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

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

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

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

Exposure to the Group's borrowings to interest rate changes

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

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

The assets are pledged at the usual market conditions.

15. RETIREMENT BENEFIT OBLIGATIONS

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

Defined benefit post-employment plans. Defined benefit pensions and termination plans cover the majority of the Group's employees. Future obligations and the corresponding assets of those plans considered as defined benefit plans under IAS 19 are reappraised annually and reassessed at least every three years by independent actuaries. Assets are valued at fair values. US employees transferred to Clariant with the Hoechst Specialty Chemicals business remain insured with Hoechst for their pension claims incurred prior to 30 June 1997.

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

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

15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Changes in the present value of defined benefit obligations:

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

Changes in the fair value of plan assets:

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

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

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

The amounts recognized in the balance sheet:

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

Thereof recognized in:

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

The amounts recognized in the income statement are as follows:

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

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

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

15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

<i>CHF mn</i>	31.12.2007	<i>31.12.2006</i>
Defined benefit obligation	-488	-461
Defined contribution obligation	-27	-34
Retirement benefit obligation	-515	-495
Prepaid pension plan asset	122	90
Net retirement benefit obligation recognized	-393	-405

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

	31.12.2007	<i>31.12.2006</i>
	%	%
Equities	39	47
Bonds	35	31
Cash	9	6
Property	12	12
Alternative investments	5	4

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

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

The weighted average expected long-term rate of return on plan assets represents the average rate of return expected to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of

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

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

<i>CHF mn</i>	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1	-1
Effect on defined benefit obligation	9	-7

Amounts for current and previous periods:

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

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

In Germany approximately 6600 Clariant employees are insured in a defined benefit plan which is a multi-employer plan and as such is accounted for as a Defined Contribution Plan. The reason for this accounting practice is that the plan exposes the participating Clariant companies to actuarial risks associated with the current and former employees of other companies, which are members of the same pension plan. There is no consistent or reliable basis for allocating the obligation, plan assets and cost to individual companies participating in the plan.

Based on the statutory actuarial calculation of 2006 the pension fund's obligations are fully funded. Also for 2007 it is anticipated that the pension plan liabilities are covered by the respective assets.

In case the multi-employer plan faces a situation where the pension plan liabilities exceed the assets, this can be remedied either by increasing the employers' contributions to the pension plan or by reducing the benefits which are paid out to the entitled parties. In the case of a reduction of the benefits it has to be verified whether this triggers the requirement for additional funding by the employer. The decision is at the discretion of the board of the pension fund, which is constituted by representatives of the companies participating in the multi-employer plan and their employee representatives.

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

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

16. MOVEMENTS IN PROVISIONS FOR NON-CURRENT LIABILITIES

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

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

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

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

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

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

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

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

17. TRADE PAYABLES

CHF mn	31.12.2007	31.12.2006
Trade payables	705	650
Payables to associates	45	19
Accruals	369	351
Other payables	202	187
Total	1 321	1 207

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

18. CURRENT FINANCIAL DEBTS

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

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

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

19. MOVEMENTS IN PROVISIONS FOR CURRENT LIABILITIES

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

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

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

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

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

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

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

20. REGIONAL BREAKDOWN OF KEY FIGURES 2007 AND 2006

Region CHF mn	¹ Sales		² Operating income		Number of employees at 31 December	
	2007	2006	2007	2006	2007	2006
Continuing operations						
Europe	4 155	3 939	21	85	10 749	11 174
<i>thereof in Germany</i>	1 252	1 173	111	100	4 982	5 154
<i>thereof in Switzerland</i>	147	140	-161	40	1 642	1 610
The Americas	2 364	2 292	158	195	4 879	4 925
<i>thereof in the US</i>	995	1 031	15	65	1 652	1 733
<i>thereof in Brazil</i>	589	521	52	38	1 648	1 695
Asia/Africa/Australia	2 014	1 869	99	105	5 303	5 649
Total continuing operations	8 533	8 100	278	385	20 931	21 748

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

¹ Allocated by region of third-party sale's destination.

² Allocated by region of production and selling entity.

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

21. DIVISIONAL BREAKDOWN OF KEY FIGURES 2007 AND 2006

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

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

DIVISIONS <i>CHF mn</i>	<i>Textile, Leather & Paper Chemicals (TLP)</i>		<i>Pigments & Additives (PA)</i>	
	2007	2006	2007	2006
Divisional sales	2 339	2 310	2 137	2 031
Sales to other divisions	-7	-7	-61	-50
Total sales	2 332	2 303	2 076	1 981
Operating expenses	-2 187	-2 143	-1 904	-1 784
Income from associates	-	1	20	19
Gain from the disposal of subsidiaries and associates	-	-	-	-
Restructuring and impairment	-105	-111	-115	-5
Operating income	40	50	77	211
Finance income	-	-	-	-
Finance costs	-	-	-	-
Income before taxes				
Taxes	-	-	-	-
Net income from continuing operations				
Discontinued operations:				
Income from discontinued operations	-	-	-	-
Net income				
Total assets	1 767	1 905	1 779	1 804
Liabilities	-172	-155	-174	-150
Total equity and minority interests	1 595	1 750	1 605	1 654
Net debts ⁴	-	-	-	-
Total net operating assets¹	1 595	1 750	1 605	1 654
Thereof:				
Investments in PPE and intangibles for the period ⁵	71	74	71	79
Investments in associates	3	13	143	190
Operating income	40	50	77	211
Add: Systematic depreciation of PPE ⁵	72	71	84	76
Add: Impairment loss on PPE and goodwill	55	103	17	-
Add: Amortization of other intangibles	-	-	2	1
EBITDA²	167	224	180	288
Add: Restructuring and impairment	105	111	115	5
Less: Impairment loss on PPE and goodwill (Reported under restructuring and impairment)	-55	-103	-17	-
Less: Gain from the disposal of subsidiaries and associates	-	-	-	-
EBITDA before restructuring and disposals	217	232	278	293
Operating income	40	50	77	211
Add: Restructuring and impairment	105	111	115	5
Less: Gain from the disposal of subsidiaries and associates	-	-	-	-
Operating income before restructuring, impairment and disposals	145	161	192	216

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

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

³ Restated (see Note 1.24).

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

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

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

⁵ <i>Discontinued operations</i>	2007	<i>2006</i>
<i>CHF mn</i>		
Investment in PPE and intangibles	6	33
Systematic depreciation	–	13

22. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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

activities are reported as discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The related assets and liabilities were reclassified to assets held for sale and associated liabilities in the balance sheet in 2006. Based on the sale price expected to be realized on the disposal of this business, the assets were depreciated for impairment by an amount of CHF 81 million in 2006.

The result of discontinued operations is as follows:

<i>CHF mn</i>	2007 <i>(6 months)</i>	<i>2006</i>
Sales	82	211
Restructuring	3	-11
Impairment	-7	-81
Operating expenses	-111	-248
Operating loss	-33	-129
Financial result		-1
Loss from discontinued operations before taxes	-33	-130
Taxes		24
Loss from discontinued operations after taxes	-33	-106
Loss on the disposal of the discontinued operation	-72	
Taxes (current and deferred)	7	
Loss from discontinued operations after taxes	-98	-106
Cash flow from discontinued operations	2007 <i>(6 months)</i>	<i>2006</i>
<i>CHF mn</i>		
Operating cash flows	-18	-65
Investing cash flows	-7	-17
Financing cash flows	-15	2
Total cash flow	-40	-80

Net assets held for sale	'2007	2006
<i>CHF mn</i>		
Property, plant and equipment		1
Deferred tax assets		6
Inventories	53	48
Trade receivables	22	40
Other current assets	1	1
Cash and cash equivalents	5	1
Total assets held for sale	81	97
Trade payables	28	21
Income tax provisions		2
Provisions	21	38
Total liabilities associated with assets held for sale	49	61
Number of employees of the disposal group	458	486
Net income and cash flow from the disposal of discontinued operations		
<i>CHF mn</i>		
Total proceeds received in 2007	23	–
Consideration for sale	23	–
Net assets sold including disposal-related expenses and liabilities incurred	–95	–
Loss on disposals before tax expense	–72	–
Taxes (current and deferred)	7	–
After tax loss on disposal	–65	–
The net cash flow from sale is determined as follows:		
Proceeds received in 2007	23	–
Payments made in 2007	–30	–
Less: cash and cash equivalents in subsidiary sold	–5	–
Net cash flow from sale	–12	–

¹ Net assets transferred at the date of the disposal.

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

Pharmaceutical Fine Chemicals. On 30 June 2006 Clariant sold its Pharmaceutical Fine Chemicals business, belonging to the Life Science Chemicals division, to TowerBrook Capital Partners. As a result, these activities are reported as Discontinued Operations in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations.

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

The result of discontinued operations is as follows:

<i>CHF mn</i>	2007	<i>2006 (6 months)</i>
Sales		114
Restructuring		-2
Operating expenses		-113
Operating loss	-	-1
Financial result		-4
Loss from discontinued operations before taxes	-	-5
Taxes		3
Loss from discontinued operations after taxes	-	-2
Loss on the disposal of the discontinued operation	-5	-121
Deferred tax on tax loss generated		20
Loss from discontinued operations	-5	-103
Cash flow from discontinued operations	2007	<i>2006 (6 months)</i>
<i>CHF mn</i>		
Operating cash flows	-	3
Investing cash flows	-	-17
Financing cash flows	-	14
Total cash flow	-	-

Net assets of disposal group	2007	¹ 2006
<i>CHF mn</i>		
Property, plant and equipment	–	115
Deferred tax assets	–	5
Inventories	–	75
Trade receivables	–	40
Other current assets	–	5
Cash and cash equivalents	–	7
Trade payables	–	–41
Financial debt	–	–8
Provisions	–	–37
Income tax liabilities	–	–3
Total net assets of disposal group	–	158
Number of employees of the disposal group	–	760
Net income and cash flow from the disposal of discontinued operations		
<i>CHF mn</i>		
Total proceeds received in 2006	–	53
Less: payment to be made to buyer in 2007	–	–8
Plus: payment to be received from buyer in 2008	–	9
Consideration for sale	–	54
Net assets sold including disposal-related expenses	–5	–174
Loss on disposals before tax expense	–5	–120
Taxes (current and deferred)	–	19
After tax loss on disposal	–5	–101
The net cash flow from sale is determined as follows:		
Proceeds received in 2006	–	53
Payments made to buyer in 2007	–3	–
Less: cash and cash equivalents in subsidiary sold	–	–7
Net cash flow from sale	–3	46
Total cash flow from the disposal of discontinued operations and assets held for sale		
<i>CHF mn</i>		
Net cash flow from sale of Custom Manufacturing	–12	
Net cash flow from sale of Pharmaceutical Fine Chemicals	–3	46
Net cash flow from repayment of vendor loan note	40	
Net cash flow	25	46

¹ Net assets transferred at the date of the disposal.

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

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

2006	Pharmaceutical Fine Chemicals	Custom Manufacturing	Total 2006
<i>CHF mn</i>			
Sales	114	211	325
Restructuring	-2	-11	-13
Impairment		-81	-81
Operating expenses	-113	-248	-361
Operating loss	-1	-129	-130
Financial result	-4	-1	-5
Loss from discontinued operations before taxes	-5	-130	-135
Taxes	3	24	27
Loss from discontinued operations after taxes	-2	-106	-108
Loss on the disposal of the discontinued operation	-121		-121
Deferred tax on tax loss generated	20		20
Loss from discontinued operations	-103	-106	-209
<i>Thereof loss on disposal of discontinued operations and assets held for sale</i>	<i>-101</i>	<i>-</i>	<i>-101</i>

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

23. DISPOSAL OF ACTIVITIES NOT QUALIFYING AS DISCONTINUED OPERATIONS

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

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

On reclassification to non-current assets held for sale these balance sheet items were revalued to the lower of book value or fair value less costs to sell. This revaluation caused an impairment devaluation of CHF 3 million relating to Australian Masterbatch activities

and 2 million relating to its Textile, Leather and Paper activities, which is reported in the income statement line "Restructuring and Impairment".

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

On reclassification to non-current assets held for sale in the second quarter of 2006 the net assets of this company were revalued to the lower of their carrying amount and fair value less costs to sell. This revaluation caused an impairment charge of CHF 43 million, which is reported in the income statement line "Restructuring and impairment".

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

24. BUSINESS COMBINATIONS

Toschem. On 1 October 2007 Clariant acquired the Colombian company Toschem de Colombia Ltda, a leading supplier of chemicals and services to the oil and gas and industrial water treatment markets in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 2 million and net profit of less than CHF 1 million to the Group for the period from 1 October 2007 to 31 Decem-

ber 2007. If the acquisition had occurred on 1 January 2007, Group sales would have increased by CHF 8 million and net income would have increased by less than CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary's to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration

CHF mn

Cash paid	3
Cash payable	1
Total purchase consideration	4
Fair value of net assets acquired	-4
Goodwill	-

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

Purchase consideration

CHF mn

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

Masterandino. On 1 November 2007 Clariant acquired the Colombian company Masterandino, a Masterbatch producer in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 1 million and net profit of less than CHF 1 million to the Group for the period from 1 November 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group sales would have increased by CHF 6 million and net income would have increased by CHF 1 million. These amounts have been calculated using the

Group's accounting policies and by adjusting the results of the subsidiary's to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

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

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

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

24. BUSINESS COMBINATIONS (CONTINUED)

KiON. On 14 February 2006 the Group acquired all of the shares in KiON Corporation, located in the USA at an amount of CHF 16 million. The acquired business contributed sales of CHF 1 million and net loss of less than CHF 1 million to the Group for the period from 14 February 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group sales would have increased and

net income would have decreased by less than CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration

CHF mn

Cash paid	16
Total purchase consideration	16
Fair value of net assets acquired	-16
Goodwill	-

The assets and liabilities as of 14 February 2006 arising from the acquisition are as follows:

Purchase consideration

CHF mn

	Pre-acquisition	Fair value adjustments	Recognized carrying amounts
Property, plant and equipment	1		1
Intangibles		15	15
Net assets acquired	1	15	16
Purchase consideration settled in cash			-16
Cash flow on acquisition			-16

Ciba Masterbatches. On 1 December 2006 the Group acquired the Ciba Specialty Chemicals' masterbatches business at an amount of CHF 30 million. This transaction comprised share deals in France and Saudi Arabia and an asset deal in Malaysia. All the shares were acquired in France and 93% of the shares in Saudi Arabia. The acquired business contributed sales of CHF 5 million and net loss of less than CHF 1 million to the Group for the period from 1 December 2006 to 31 December 2006.

If the acquisition had occurred on 1 January 2006, Group sales would have increased by CHF 76 million and net income would have increased by CHF 3 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to property, plant and equipment and intangibles had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration

CHF mn

Cash paid	30
Direct costs relating to the acquisition	1
Total purchase consideration	31
Fair value of net assets acquired	-28
Goodwill	3

The goodwill recognized on the acquisition is justified due to the expected synergies from the transaction and the assembled workforce.

The assets and liabilities as of 1 December 2006 arising from the acquisition are as follows:

Purchase consideration	<i>Pre-acquisition</i>	<i>Fair value adjustments</i>	<i>Recognized carrying amounts</i>
CHF mn			
Cash and cash equivalents	2		2
Trade receivables	20	-1	19
Inventories	16	-1	15
Property, plant and equipment	24	-8	16
Intangibles		3	3
Current liabilities	-21		-21
Non-current liabilities	-4	-1	-5
Deferred tax liabilities	-1	1	-
Net assets	36	-7	29
Minorities	-1		-1
Net assets acquired	35	-7	28
Purchase consideration settled in cash			-31
Cash and cash equivalents			2
Cash flow on acquisition			-29

25. FINANCE INCOME AND COSTS

Finance income	2007	2006
<i>CHF mn</i>		
Interest income	26	30
<i>thereof interest on loans and receivables</i>	24	19
<i>thereof income from financial assets held to maturity</i>	1	1
Other financial income	5	3
<i>thereof gains on the valuation of fair value hedges</i>	1	2
Total finance income	31	33
Finance costs	2007	2006
<i>CHF mn</i>		
Interest expense	-107	-112
Other financial expenses	-18	-20
Currency result, net	23	-11
Total finance costs	-102	-143

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

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

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

26. EARNINGS PER SHARE (EPS)

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

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

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

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

27. RESTRUCTURING AND IMPAIRMENT

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

Restructuring. In 2007 Clariant recorded expenses for restructuring in the amount of CHF 185 million in continuing operations for projects mainly in Germany, the United Kingdom and the United States, where several sites are closed and the headcount is being further reduced. In September 2007 Clariant announced the closure of its production site in Selby, UK pertaining to the division Textile, Leather, Paper in the course of 2008. The closure will result in

a substantial headcount reduction entailing restructuring costs in the amount of CHF 28 million. Additionally property, plant and equipment in the amount of CHF 50 million was impaired based on value in use calculation. In October 2007 Clariant announced the closure of its production site in Coventry, USA by December 2008. The closure will result in a substantial headcount reduction entailing restructuring costs in the amount of CHF 41 million. Additionally the useful life of the assets of the site concerned was reassessed and brought in line with the timing of the plant closure. This led to additional depreciation in the amount of CHF 20 million to be charged to the income statement in the fourth quarter of 2007 and the year 2008. This charge would have been reported in subsequent periods, had it not been decided to close the plant. As this depreciation charge is clearly distinct from the depreciation charged in the regular course of business excluding any site closures, it is posted to the line "Restructuring and impairment" in the income statement. The

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

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

amount charged to the income statement for the accelerated depreciation of the assets of the Coventry site amounts to CHF 4 million in 2007. The expenses concern the Pigments & Additives division. In 2006 the Clariant Group recorded expenses for restructuring in the amount of CHF 61 million in Continuing Operations for projects mainly in Germany, the United Kingdom and the United States.

Impairment. As a result of the permanent endeavors to improve the Company's performance, PPE are regularly reviewed for their cash generating potential. In numerous cases it was evident that such assets were impaired, as they would no longer be utilized and as a consequence they were written off. Clariant also assessed the recoverability of the carrying amount of non-current assets of several cash generating units (CGU) in 2006 and 2007. For this purpose, assets were grouped at the lowest levels for which there are separately identifiable cash flows. An impairment loss was recognized

as an expense in the income statement in the amount by which the carrying amount of the assets exceeded the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. In May 2006 Clariant decided to sell its subsidiary Industriepark Gersthofen Servicegesellschaft in Germany, pertaining to Site Services, Energy Supply, ESHA Services and Enterprise Functions. On reclassification to non-current assets held for sale the balance sheet items concerned were revalued to fair value less costs to sell. This revaluation caused an impairment charge of CHF 43 million, which is reported in the column "Corporate". On 30 September 2006 the company was sold (see Note 23). In 2006 goodwill in the amount of CHF 100 million pertaining to the Leather business was written off for impairment. This is also described in Note 5.

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

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

CHF mn			Other reserves							
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves	Retained earnings	Total attributable to equity holders	Minority interests	Total equity
Balance 31 December 2005	1 093	-18	767	-	-104	663	793	2 531	60	2 591
Total recognized income and expense for the period					-15	-15	-85	-100	7	-93
Dividends to third parties						-	-	-7		-7
Share capital reduction	-58					-	-58			-58
Employee share & option scheme:										
Effect of employee services						-	-3	-3		-3
Equity share options issued							-4	-4		-4
Treasury share transactions		2				-	5	7		7
Balance 31 December 2006	1 035	-16	767	-	-119	648	706	2 373	60	2 433
Total recognized income and expense for the period					-6	-6	-5	-11	8	-3
Dividends to third parties						-	-	-9		-9
Share capital reduction	-57					-	-57			-57
Employee share & option scheme:										
Effect of employee services						-	7	7		7
Equity share options issued							4	4		4
Treasury share transactions						-	-3	-3		-3
Balance 31 December 2007	978	-16	767	-	-125	642	709	2 313	59	2 372

During 2006 and 2007 Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 57.5 million in each year.

In 2006 Clariant Ltd sold 1 000 000 put options on its own shares of which 250 000 were outstanding on 31 December 2006. The put options had a strike price of CHF 18.00 and expired in June 2007 without having been exercised.

29. FINANCIAL INSTRUMENTS

Risk management (hedging) instruments and off-balance sheet risks. Clariant uses forward foreign exchange rate and option contracts, interest rate and currency swaps, and other derivative instruments to hedge the Group's risk exposure to volatility in interest rates and currencies and to manage the return on cash and cash equivalents. Risk exposures from existing assets and liabilities as well as anticipated transactions are managed centrally.

Interest rate management. It is the Group's policy to manage the cost of interest using fixed and variable rate debt and interest-related derivatives.

Foreign exchange management. To manage the exposure to the fluctuations in foreign currency exchange rates, the Group follows a strategy of hedging both balance sheet and revenue risk, partially through the use of forward contracts and currency swaps in various currencies. In order to minimize financial expenses, the Group does not hedge the entire exposure.

The following tables show the contract or underlying principal amounts and the respective fair value of financial instruments by type at year-end.

The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent the amount at risk. The fair values represent market value or standard pricing models at 31 December 2007 and 2006, respectively.

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

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

Financial instruments by maturity	<i>1-12 months</i>		<i>1-5 years</i>		<i>Total</i>	
	31.12.2007	<i>31.12.2006</i>	31.12.2007	<i>31.12.2006</i>	31.12.2007	<i>31.12.2006</i>
<i>CHF mn</i>						
Currency related instruments						
Forward foreign exchange rate contracts	102	111		-	102	111
Total financial instruments	102	111	-	-	102	111

29. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by currency	31.12.2007	31.12.2006
<i>Forward foreign exchange rate contracts</i>		
<i>CHF mn</i>		
USD	72	75
EUR	1	2
BRL	29	34
Total financial instruments	102	111
Financial instruments effective for hedge-accounting purposes	31.12.2007	31.12.2006
<i>CHF mn</i>		
Fair value of cash flow hedges:		
Contracts with positive fair values	–	–
Contracts with negative fair values		
Cross currency swaps	–	–
Fair value of hedges of net investments in foreign entities:		
Contracts with positive fair values	–	–
Contracts with negative fair values		
Borrowings denominated in foreign currencies	–994	–961

On 6 April 2006 Clariant issued a bond in the amount of EUR 600 million, denominated in euros (see Note 14). The bond was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange loss as at 31 December 2007 in the amount of CHF 31 million (2006: CHF 16 million) resulting from the translation of the bond into Swiss francs was recognized in the cumulative translation reserves in Shareholders' equity.

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

Volumes of securitization of trade receivables	31.12.2007	31.12.2006
<i>CHF mn</i>		
Trade receivables denominated in US dollars	73	88
Total	73	88
Related liability in the balance sheet denominated in US dollars	73	88
Total	73	88

Securitization. For a number of years Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in asset backed securities (ABS) programs. Clariant retains the credit risk of the trade receivable and the interest

rate risk liability incurred. Therefore the trade receivables are not derecognized from the balance sheet until payments from the customers are obtained and a current financial liability is recorded for the amount borrowed under the security of the trade receivables.

30. EMPLOYEE PARTICIPATION PLANS

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

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

The granted registered shares of Clariant Ltd become vested and are exercisable after three years. No options are granted under the CEBP.

The options granted under the former CESOP entitle the holder to acquire registered shares in Clariant Ltd. (1 share per option) at a predetermined strike price. They become vested and are exercisable after three years and expire after ten years.

The expense recorded in the income statement spreads the costs of each grant equally over the measurement period of one year and the vesting period of three years. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for the vested amounts. As permitted by the transitional rules of IFRS 2, grants of options and shares prior to 7 November 2002 have not been restated.

During 2007 CHF 7 million (2006: CHF 9 million) for equity-settled share based payments and less than CHF 1 million (2006: CHF 1 million) for cash-settled share based payments were charged to the income statement.

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

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

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2007	Number 31.12.2006
1998	1998	2001	2008	53.80	56.76	10 137	10 137
1999	1999	2002	2009	61.80	60.76	10 418	10 418
2000	2000	2003	2010	48.00	47.97	6 229	6 229
Total						26 784	26 784

Options for senior members of Management¹

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2007	Number 31.12.2006
1997	1998	2001	2008	25.50	68.97	127 783	127 783
1997	1998	2001	2008	37.50	73.06	167 001	167 001
1998	1999	2002	2009	61.80	62.09	358 789	358 789
1999	2000	2003	2010	48.00	47.97	106 191	106 191
2000	2001	2004	2011	41.80	42.02	7 229	7 229
2001	2002	2005	2012	27.20	26.87	166 354	166 354
2002	2003	2006	2013	14.80	14.88	87 352	124 568
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	53 479	60 391
2004	2005	2008	2015	19.85	19.85	146 237	146 237
Total						1 269 741	1 313 869

¹ Past and current members.

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

30. EMPLOYEE PARTICIPATION PLANS (CONTINUED)

Shares for Board of Directors (non-executive members)						
<i>Base year</i>	<i>Granted</i>	<i>Vesting in</i>	<i>Share price at grant date</i>	Number 31.12.2007	<i>Number 31.12.2006</i>	
2004	2004	2007	18.74		5 522	
2005	2005	2008	19.85	10 077	10 077	
2006	2006	2009	19.60	16 158	16 158	
2007	2007	2010	19.15	22 192		
Total				48 427	31 757	

Shares for members of Management						
<i>Base year</i>	<i>Granted</i>	<i>Vesting in</i>	<i>Share price at grant date</i>	Number 31.12.2007	<i>Number 31.12.2006</i>	
2003	2004	2007	18.74		282 271	
2004	2005	2008	19.85	393 397	433 121	
2005	2006	2009	19.60	285 555	312 604	
2006	2007	2010	19.15	454 310	–	
Total				678 952	1 027 996	

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

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

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

31. PERSONNEL EXPENSES

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

Thereof the amount of CHF 30 million (2006: CHF 100 million) is reported under discontinued operations.

32. RELATED PARTY TRANSACTIONS

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

The second group of related parties is key management comprising the Board of Directors (non-executive members) and the Board of Management. The information required by Art. 663b bis of the Swiss Code of Obligations regarding the emoluments for the members of the Board of Directors and the Board of Management is disclosed in the Statutory Accounts of Clariant Ltd on pages 160 and 161 of this report (not based on IFRS valuations). More information on the relationship with the Board of Directors is given in the chapter **Corporate governance** (non-audited).

The third group of related parties are the pension plans of major subsidiaries. Clariant provides services to its pension plans in Switzerland, the UK and the US. These services comprise mainly administrative and trustee services. The total cost of these services is CHF 1 million (2006: CHF 1 million), of which approximately half is charged back to the pension plans. The number of full time employees corresponding to these are approximately 6 (2006: 6).

Transactions with associates	2007	2006
<i>CHF mn</i>		
Income from the sale of goods to related parties	37	41
Income from the rendering of services to related parties	4	7
Expenses from the purchase of goods to related parties	-27	-8
Expenses from services rendered by related parties	-255	-272
Payables and receivables with associates		
<i>CHF mn</i>		
Receivables from related parties	8	8
Payables to related parties	45	19
Transactions with Key Management		
<i>CHF mn</i>		
Salaries and other short-term benefits	6	8
Termination benefits	4	-
Post-employment benefits	1	1
Share-based payments	1	1
Total	12	10
Number of granted shares for the reporting period	130 334	117 419

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

33. COMMITMENTS AND CONTINGENCIES

Leasing commitments. The Group leases various land, buildings, machinery and equipment, furniture and vehicles under fixed-term agreements. The leases have varying terms, escalation clauses and renewal rights.

Commitments arising from fixed-term operating leases mainly concern buildings in Switzerland and Germany. The most important partners for operating leases of buildings in Germany are the Infra-serv companies.

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

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

Purchase commitments. In the regular course of business, Clariant enters into relationships with suppliers whereby the Group commits itself to purchase certain minimum quantities of materials in order to benefit from better pricing conditions. These commitments are not in excess of current market prices and reflect normal business operations. At present, the purchase commitments on such contracts amount to about CHF 106 million (2006: CHF 176 million).

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

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

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

Environmental risks. Clariant is exposed to environmental liabilities and risks relating to its past operations, principally in respect of remediation costs. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe.

The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties. The Group permanently monitors the various sites identified at risk for environmental exposure. Clariant believes that its provisions are adequate based upon currently available information, however given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred.

34. EXCHANGE RATES OF PRINCIPAL CURRENCIES

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

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

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

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

35. IMPORTANT SUBSIDIARIES

Country	Company name	Participation %	Holding/ Finance / Service	Sales	Production	Research
Argentina	Clariant (Argentina) SA, Lomas de Zamora, Buenos Aires	100.0		■	■	
Australia	Clariant (Australia) Pty. Ltd, Chadstone, Melbourne	100.0		■	■	
Austria	Clariant (Österreich) GmbH, Vienna	100.0		■	■	
Bangladesh	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
Belgium	Clariant Masterbatches Benelux SA, Louvain-La-Neuve	100.0		■	■	
Brazil	Clariant S.A., São Paulo	100.0		■	■	
Canada	Clariant (Canada) Inc., St. Laurent, Québec	100.0		■	■	
Chile	Clariant Colorquímica (Chile) Ltda., Maipú-Santiago de Chile	100.0		■	■	
China	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Masterbatches (Guangzhou) Ltd, Guangzhou	100.0		■	■	
	Clariant Masterbatches (Shanghai) Ltd, Shanghai	100.0		■	■	
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
Colombia	Clariant (Colombia) SA, Cota-Cundinamarca	100.0		■	■	
Denmark	Clariant (Danmark) A/S, Karise	100.0		■		
Ecuador	Clariant (Ecuador) S.A., Quito	100.0		■		
Egypt	Clariant (Egypt) SAE, Cairo	85.7		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
Finland	Clariant (Finland) Oy, Vantaa	100.0		■		
	Clariant Masterbatches (Finland) Oy, Vantaa	100.0		■	■	
France	Clariant Distribution (France), Puteaux	100.0		■		
	Clariant Masterbatches (France), Puteaux	100.0		■	■	
	Clariant Masterbatches Huningue, Puteaux	100.0		■	■	■
	Clariant Production (France), Puteaux	100.0			■	■
Germany	Clariant Masterbatches (Deutschland) GmbH, Lahnstein	100.0		■	■	■
	Clariant Produkte (Deutschland) GmbH, Frankfurt-Höchst	100.0	■		■	■
	Clariant Vertrieb (Deutschland) GmbH und Co. KG, Frankfurt-Höchst	100.0		■		
Great Britain	Clariant Distribution UK Limited, Horsforth / Leeds	100.0		■		
	Clariant Production UK Ltd, Horsforth / Leeds	100.0			■	■
Greece	Clariant (Hellas) SA, Lykovrisi	100.0		■		
Guatemala	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
Honduras	Clariant Honduras S.A. de C.V., San Pedro Sula	100.0		■		
India	Clariant Chemicals (India) Ltd, Mumbai	63.4		■	■	■
Indonesia	PT Clariant Indonesia, Tangerang	100.0		■	■	
Ireland	Clariant Masterbatches Ireland Limited, Naas	100.0		■	■	
Italy	Clariant Distribuzione (Italia) S.p.A., Milan	100.0		■		
	Clariant Masterbatches (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Prodotti (Italia) S.p.A., Milan	100.0			■	
Japan	Clariant (Japan) K.K., Tokyo	100.0		■	■	■
Korea	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Masterbatches (Korea) Ltd, Kyungsannamdo	100.0		■	■	
	Clariant Pigments (Korea) Ltd, Ulsan-Si	99.8		■	■	
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		■		
Mexico	Clariant (Mexico) S.A. de C.V., Naucalpan de Juárez	100.0		■	■	
Morocco	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
Netherlands	Clariant Distributie (Nederland) BV, Diemen	100.0		■		
	Dick Peters BV, Denekamp	100.0		■	■	
New Zealand	Clariant (New Zealand) Ltd, Albany-Auckland	100.0		■	■	
Norway	Clariant (Norge) AS, Bergen	100.0		■		

Country	Company name	<i>Participation %</i>	<i>Holding/ Finance/Service</i>	<i>Sales</i>	<i>Production</i>	<i>Research</i>
Pakistan	Clariant Pakistan Ltd, Karachi-Korangi	75.0		■	■	
Panama	Clariant Trading (Panamá), SA, Panamá	100.0		■		
Peru	Clariant (Perú) SA, Lima	91.4		■	■	
Philippines	Clariant (Philippines) Corp., Makati City, Manila	100.0		■		
Poland	Clariant Polska Sp. z.o.o., Lodz	100.0		■		
Russia	Clariant (RUS) LLC, Moscow	100.0		■		
Saudi Arabia	Clariant Masterbatches (Saudi Arabia) Ltd, Riyadh	93.0		■	■	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	100.0		■	■	
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg	100.0		■	■	
Spain	Clariant Ibérica Comercial S.L., L'Hospitalet de Llobregat, Barcelona	100.0		■		
	Clariant Ibérica Producción S.A., L'Hospitalet de Llobregat, Barcelona	100.0			■	■
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	100.0		■	■	
Sweden	Clariant (Sverige) AB, Göteborg	100.0		■		
	Clariant Masterbatches Norden AB, Malmö	100.0		■	■	■
Switzerland	Clariant Export AG, MuttENZ	100.0		■		
	Clariant International AG, MuttENZ	100.0	■			
	Clariant Produkte (Schweiz) AG, MuttENZ	100.0			■	■
Taiwan	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
Thailand	Clariant Chemicals (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Bangkok	100.0		■	■	
Turkey	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
Uruguay	Clariant (Uruguay) SA, Montevideo	100.0		■		
USA	Clariant Corporation, Charlotte, NC	100.0		■	■	■
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL	100.0		■	■	■
Venezuela	Clariant Venezuela S.A., Maracay	100.0		■	■	
Vietnam	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0			■	

36. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There are no relevant events after the balance sheet date.

REPORT OF THE GROUP AUDITORS

REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of recognized income and expense and notes – pages 90 to 152) of the Clariant Group for the year ended 31 December 2007.

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

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

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

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

PricewaterhouseCoopers AG

Daniel Suter Dr. Matthias Jeger
Auditor in charge

Basel, 12 February 2008

REVIEW OF TRENDS

FIVE-YEAR GROUP OVERVIEW

Five-year group overview 2003–2007		2007	2006	2005 (restated)	2005	2004	2003
Divisional sales	CHF mn	8 660	8 211	7 800	8 261	8 772	8 783
Change relative to preceding year							
in Swiss francs	%	5	5		–6	–0	–9
in local currency	%	4	3		–8	2	–4
Group sales¹	CHF mn	8 533	8 100	7 728	8 181	8 530	8 516
Change relative to preceding year							
in Swiss francs	%	5	5		–4	–	–9
in local currency	%	4	3		–6	2	–4
Operating income before exceptionals	CHF mn	539	592	533	516	636	611
Change relative to preceding year	%	–9	11		–19	4	–11
as a % of sales		6.3	7.3		6.3	7.5	7.2
Operating income	CHF mn	278	385	448	368	533	559
Change relative to preceding year	%	–28	–14		–31	–5	–
as a % of sales		3.3	4.8		4.5	6.2	6.6
EBITDA	CHF mn	628	798	714	710	918	1 119
Change relative to preceding year	%	–21	12		–23	–18	–6
as a % of sales		7.4	9.9		8.7	10.8	13.1
Net income	CHF mn	5	–78	192	192	159	173
Change relative to preceding year	%	–106	–141		21	–8	–
as a % of sales		0.1	–1.0		2.3	1.9	2.0
Investment in property, plant and equipment	CHF mn	306	325	321	348	289	301
Change relative to preceding year	%	–6	1		20	–4	–11
as a % of sales		4	4		4	3	4
Personnel costs	CHF mn	1 930	1 817	1 825	1 952	1 979	2 009
Change relative to preceding year	%	6	–		–1	–1	–4
as a % of sales		23	22		24	23	24
Employees at year-end	number	20 931	21 748	22 132	23 383	24 769	27 008
Change relative to preceding year	%	–4	–2		–6	–8	–3

¹ Incl. trading.

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

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

FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ**CLARIANT LTD BALANCE SHEETS** at 31 December 2007 and 2006

ASSETS	31.12.2007		31.12.2006	
	CHF	%	CHF	%
Non-current assets				
Shareholdings in Group companies	1 873 065 710		1 702 995 578	
Loans to Group companies	468 945 607		664 156 088	
Intangible assets	1 264 057		1 724 204	
Total non-current assets	2 343 275 374	74.1	2 368 875 870	78.5
Current assets				
Receivables from Group companies	436 599 271		324 109 277	
Other receivables	12 824 887		54 427 801	
Accrued income	1 467 818		120 438	
Marketable securities	37 135 846		59 025 031	
Cash and cash equivalents	332 950 259		211 861 961	
Total current assets	820 978 081	25.9	649 544 508	21.5
Total assets	3 164 253 455	100.0	3 018 420 378	100.0
EQUITY AND LIABILITIES				
	CHF	%	CHF	%
Total share capital	978 180 000		1 035 720 000	
Reserves				
General reserve	646 595 631		646 595 631	
Reserve for treasury shares	90 588 025		97 180 627	
Free reserves	596 236 598		526 480 429	
Total reserves	1 333 420 254		1 270 256 687	
Accumulated losses/available earnings				
Loss/income for the financial year	-14 313 693		63 163 567	
Total accumulated losses/available earnings	-14 313 693		63 163 567	
Total equity	2 297 286 561	72.6	2 369 140 254	78.5
Liabilities				
Non-current liabilities				
Straight bonds	250 000 000		384 040 000	
Loans from Group companies	5 625 500		-	
Total non-current liabilities	255 625 500	8.1	384 040 000	12.7
Current liabilities				
Provisions	3 323 702		3 145 286	
Liabilities to Group companies	201 290 104		65 317 860	
Other liabilities	387 413 263		177 257 940	
Accrued expenses	19 314 325		19 519 038	
Total current liabilities	611 341 394	19.3	265 240 124	8.8
Total liabilities	866 966 894	27.4	649 280 124	21.5
Total equity and liabilities	3 164 253 455	100.0	3 018 420 378	100.0

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

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

NOTES TO THE FINANCIAL STATEMENTS OF CLARIANT LTD

1. ACCOUNTING POLICIES

Introduction. The statutory financial statements of Clariant Ltd comply with the requirements of the Swiss company law.

Exchange rate differences. Balance sheet items denominated in foreign currencies are converted at year-end exchange rates. Exchange rate differences arising from these, as well as those from business transactions, are recorded in the income statement.

Financial assets. These are valued at acquisition cost less adjustments for impairment of value.

Provisions. Provisions are made to cover existing liabilities.

2. FINANCIAL ASSETS

After a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, the investment (including non-current loans) in some of these companies were written down by CHF 200 million (prior year CHF 695 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 150 and 151 of the Financial Report of the Clariant Group.

3. CASH, MARKETABLE SECURITIES AND CURRENT FINANCIAL ASSETS

Securities include treasury shares valued at fair market value in the amount of CHF 37 million (prior year CHF 59 million) (see also note 6).

4. REPAYMENT OF SHARE CAPITAL

On 2 April 2007 the Shareholders' Meeting approved the repayment of share capital in the amount of CHF 57 540 000.

Paid-in share capital was decreased by CHF 57 540 000 to a total of CHF 978 180 000.

5. SHARE CAPITAL

	31.12.2007	<i>31.12.2006</i>
Number of registered shares each with a par value of CHF 4.25 (2006: CHF 4.50)	230 160 000	230 160 000
In CHF	978 180 000	1 035 720 000
Conditional Capital	31.12.2007	<i>31.12.2006</i>
Number of registered shares each with a par value of CHF 4.25 (2006: CHF 4.50)	8 000 000	8 000 000
In CHF	34 000 000	36 000 000

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

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

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

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

7. RECONCILIATION OF EQUITY

CHF	Share capital	General reserve	Reserve for treasury shares	Free reserves	Net loss/income	Total
Balance 31 December 2006	1 035 720 000	646 595 631	97 180 627	526 480 429	63 163 567	2 369 140 254
Treasury share transactions			-6 592 602	6 592 602		-
Appropriation of profit/loss carried forward to reserves				63 163 567	-63 163 567	-
Repayment of share capital	-57 540 000					-57 540 000
Loss for the financial year					-14 313 693	-14 313 693
Balance 31 December 2007	978 180 000	646 595 631	90 588 025	596 236 598	-14 313 693	2 297 286 561

8. STRAIGHT BONDS

CHF thousand	Interest rate	Term	Amount 31.12.2007	Amount 31.12.2006
Straight bond	3.750	1997-2007	-	174 610
Straight bond	4.250	2000-2008	384 040	384 040
Straight bond	3.125	2007-2012	250 000	-
Total			634 040	558 650

The bond falling due in 2008 is recorded in other liabilities under current liabilities in the balance sheet.

9. GENERAL RESERVES

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

10. RESERVE FOR TREASURY SHARES

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

11. CONTINGENT LIABILITIES

CHF mn	Outstanding liabilities 31.12.2007	Outstanding liabilities 31.12.2006
Outstanding liabilities as guarantees in favor of Group companies	1 142	1 073
Outstanding liabilities as guarantees in favor of third parties	25	24

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

1. BOARD OF DIRECTORS

Name	Member of the Board of Directors		Honorary in CHF	Attendance fee in CHF	Shares granted			Social security in CHF	Total in CHF
	First elected	Elected until			Value at grant date	Number	Total value in CHF		
Roland Lösser	2000	2008	400 000	–	19.15	5 222	100 001	20 868	520 869
Tony Reis	1999	2009	75 000	–	19.15	3 916	74 991	6 251	156 242
Peter Chen	2006	2010	50 000	7 500	19.15	2 611	50 001	4 048	111 549
Klaus Jenny	2005	2009	50 000	16 250	19.15	2 611	50 001	3 522	119 773
Peter Isler	2004	2008	50 000	13 750	19.15	2 611	50 001	5 844	119 595
Kajo Neukirchen	2004	2008	50 000	5 000	19.15	2 611	50 001	3 617	108 618
Rudolf Wehrli	2007	2011	25 000	–	19.15	1 305	24 991	1 528	51 519
Jürg Witmer	2007	2011	25 000	10 000	19.15	1 305	24 991	1 527	61 518
Total			CHF 725 000	CHF 52 500		22 192	CHF 424 977	CHF 47 205	CHF 1 249 682

Shares and options held as per 31 December 2007

Name	Number of shares within vesting period	Number of privately held shares	Number of options within vesting period	Number of exercisable options
Roland Lösser	8 624	22 173	101 352	28 467
Tony Reis	11 522	8 508		1 701
Peter Chen	3 887	200		
Klaus Jenny	6 422	20 000		
Peter Isler	7 681	9 227		
Kajo Neukirchen	7 681	3 227		
Rudolf Wehrli	1 305	5 000		
Jürg Witmer	1 305	25 000		
Total	48 427	93 335	101 352	30 168

2. BOARD OF MANAGEMENT

	CEO	Others	Total
Base salary	850 000	3 203 583	4 053 583
Cash bonus	314 500	707 450	1 021 950
Sharebased bonus:			
Number of shares	33 280	74 862	108 142
Value per share at grant date	9.45	9.45	9.45
Total value of shares	314 496	707 445.9	1 021 941.9
Benefits	288 266	1 336 092	1 624 358
Total	CHF 1 767 262	CHF 5 954 571	CHF 7 721 833

During the year 2007 several members of the Board of Management left Clariant, while several other members joined the Board during the year. The above table takes into account presence on the Board of Management of these members as follows:

> Uwe Nickel	1 January–31 August 2007
> Peter Piringer	1 January–15 September 2007
> Philippe Royer	1 July–30 September 2007
> Okke Koo	1 August–31 December 2007
> Hartmut Wiezer	1 January–31 December 2007
> Johann Steiner	1 July–31 December 2007

Benefits comprise representation expenses, social security, contributions to the pension plan, family allowances and tuition.

The numbers disclosed above are not in accordance with the requirements of IFRS and therefore cannot be compared with the numbers disclosed in the Consolidated Financial Statement of the Clariant Group.

As part of the contractual agreement leaving indemnities in the amount of CHF 4.02 million were paid to three leaving members of the Board of Management in 2007.

Shares and options held as per 31 December 2007

Name	Number of shares within vesting period	Number of privately held shares	Number of options within vesting period	Number of exercisable options
Jan Secher, CEO	33 290	17 000		
Patrick Jany, member of the board of management	9 503	14 611		4 528
Peter Brandenburg, member of the board of management	15 199	1 330	16 892	28 137
Okke Koo, member of the board of management	–	–		
Dominik von Bertrab, member of the board of management	20 513	4 000		3 604
Hartmut Wiezer, member of the board of management	16 220	–		5 630
Siegfried Fischer, member of the board of management	17 789	13 419		17 243
Johann Steiner, member of the board of management	4 405	1 180		
Total	116 919	51 540	16 892	59 142

13. VOTING AND LEGAL REGISTRATION LIMITATIONS

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

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

14. SHAREHOLDERS HOLDING FIVE PERCENT OR MORE OF TOTAL CAPITAL

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

PROPOSED TRANSFER OF ACCUMULATED LOSSES

The Board of Directors proposes to transfer the accumulated losses in the amount of CHF –14 313 693 against free reserves.

Accumulated losses	<i>CHF</i>
Balance from prior year	–
Loss for the financial year	– 14 313 693
Total accumulated losses	– 14 313 693
Appropriation	<i>CHF</i>
Transfer against free reserves	14 313 693
Balance to be carried forward	–

PROPOSED PAYOUT OF NOMINAL VALUE REDUCTION

The Board of Directors proposes to repay CHF 0.25 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 4.25 to CHF 4.00 per registered share. The proposed payout would reduce the share capital by CHF 57 540 000. The proposed payout of the nominal value reduction of CHF 0.25 each is expected for June 2008, subject to approval by the ordinary General Meeting of shareholders and subject to the fulfillment of the necessary requirements and the entry of the share capital reduction in the Commercial Register of the Canton of Baselland.

REPORT OF THE STATUTORY AUDITORS

REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 156 to 161) of Clariant Ltd for the year ended 31 December 2007.

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

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

In our opinion, the accounting records and financial statements and the proposed transfer of accumulated losses against free reserves comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Daniel Suter Dr. Matthias Jeger
Auditor in charge

Basel, 12 February 2008

FORWARD-LOOKING STATEMENTS

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

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Cautionary statement regarding forward-looking statements

This report contains forward-looking statements based on current assumptions and projections made by management. Such statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results and performance of Clariant International Ltd to differ from those expressed in, implied or projected by the forward-looking information and statements.

The information published in this report is provided by Clariant International Ltd and corresponds to the status as of the date of publication of this report.

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The English version is legally binding.