

# ***FINANCIAL REPORT***

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

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

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

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

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

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

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

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

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

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

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

This statement shows only changes in equity other than those arising from capital transactions with owners and distributions to owners. For a comprehensive presentation of equity, see Note 29.

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

Changes in fair value of financial assets classified as available for sale amount to less than CHF 1 million in 2008 and 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### 1.01 – GENERAL INFORMATION

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

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

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

#### 1.02 – BASIS OF PREPARATION

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

The preparation of financial statements in conformity with the IFRS requires the use of estimates and assumptions. These affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and circumstances, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

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

› IFRIC 11, IFRS 2 Group and Treasury Share Transactions (effective for annual periods beginning on or after March 1, 2007): This interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled payment transaction, regardless of how the equity instruments are obtained. The Group applies this interpretation since January 1, 2008, but it does not have any impact on the Group's accounts.

› IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008): This interpretation addresses how service operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. This interpretation does not have any impact on the Group's accounts.

› IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This adoption of the interpretation did not have any material impact on the Group's accounts.

#### 1.04 – INTERNATIONAL FINANCIAL REPORTING STANDARDS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2009 or later periods but which the Group has not early adopted. These are the following:

› IFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009). IFRS 8 replaces IAS 14 Segment Reporting. This standard requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. This new requirement could have an impact on the segments presented, the items reported and their respective measurement. The Group has undergone a thorough analysis and does not expect any material impact from the adoption of this standard. The Group will apply this standard from January 1, 2009.

- › IAS 23 (revised), Borrowing Costs (effective for annual periods beginning on or after January 1, 2009). This revised standard requires that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalized as part of the cost of that asset. The Group estimates that this new accounting treatment of borrowing costs will reduce its finance costs and increase depreciation.
- › IAS 1 (revised), Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009). This revised standard requires the presentation in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

The revised standard also requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when an accounting policy is applied retrospectively or a retrospective restatement is made as defined in IAS 8, or when items are reclassified in the financial statements. Further, the standard requires the disclosure of reclassification adjustments and income tax relating to each component of other comprehensive income and the presentation of dividends recognized as distributions to owners and related amounts per share in the statement of changes in equity or in the notes. The Group will apply the revised standard from January 1, 2009. As the new requirements concern presentation and disclosures only, they will not impact the Group's accounting policies.

- › IFRS 2 (amended), Share-based Payments (effective for accounting periods beginning on or after January 1, 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payments are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect any material impact from the adoption of the amended standard.
- › IFRS 3 (revised), Business Combinations requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after July 1, 2009, with earlier application permitted. These new requirements will impact significantly the Group's accounting for future business combinations.
- › IAS 27 (amended), Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after July 1, 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These new requirements will impact the accounting for future transactions with non-controlling interest formerly minority interest.
- › Annual improvements to IFRS (mostly effective January 1, 2009) – As part of the annual improvement project the IASB issued minor, non-urgent changes to 20 International Financial Reporting Standards in May 2008. These changes are not expected to have any impact on the Group's accounts.
- › IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points of free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not expected to have any impact on the Group's accounts.
- › IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after January 1, 2009). The interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction should be recognized. This interpretation is not expected to have any impact on the Group's accounts.
- › IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods commencing on or after October 1, 2008). IFRIC 16 provides guidance on identifying the foreign currency risks that qualify

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

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

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

#### 1.05 – SCOPE OF CONSOLIDATION

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

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

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

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

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

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

#### 1.06 – PRINCIPLES AND METHODS OF CONSOLIDATION

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

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

### 1.07 – REVENUE RECOGNITION

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

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

### 1.08 – EXCHANGE RATE DIFFERENCES

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

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

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

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

### 1.09 – PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

### 1.10 – INTANGIBLE ASSETS

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

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

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

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

#### 1.11 – IMPAIRMENT OF ASSETS

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

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

#### 1.12 – INVENTORIES

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

#### 1.13 – TRADE RECEIVABLES

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

#### 1.14 – CASH AND CASH EQUIVALENTS

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

#### 1.15 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

transaction affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

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

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

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

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

#### 1.16 – LEASES

Leases under which the Clariant Group assumes substantially all of the risks and benefits of ownership are classified as finance leases. At the inception of the lease, the leased asset and a lease liability are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. In subsequent periods the leased asset is depreciated on a straight-line basis, like other property,

plant and equipment, over the shorter of its estimated useful life or the lease term. The depreciation amount of the asset and the interest amount on the finance lease liability are charged to the income statement.

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

#### 1.17 – CURRENT INCOME TAX

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

#### 1.18 – DEFERRED INCOME TAX

Deferred income tax is calculated using the comprehensive liability method. This method calculates a deferred tax asset or liability on the temporary differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and the one prepared for consolidation purposes. An exception is that no deferred income tax is calculated for the temporary differences in investments in Group companies and associates, provided that the investor (parent company) is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Furthermore, withholding taxes or other taxes on the eventual distribution of retained earnings of Group companies are only taken into account when a dividend has been planned, since generally the retained earnings are reinvested.

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

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

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

#### 1.19 – EQUITY COMPENSATION BENEFITS

In 2005, Clariant replaced its two equity compensation plans, the Clariant Executive Stock Option Plan (CESOP) and the Management Stock Incentive Plan (MSIP), with the Clariant Executive Bonus Plan (CEBP). Under this plan, specific groups of executives and managers are granted a certain number of registered shares in Clariant Ltd. The options and shares granted under the former plans up to February 2005 continue to vest. In 2008, Clariant established a new stock option plan for members of management and the Board of Directors. The options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd at a predetermined strike price. The fair value of the employee services received in exchange for the grant of the shares and options is recognized as an expense. The total amount to be expensed over the vesting and measurement periods is determined by reference to the fair value of the shares and options granted. An adjustment is made for dividends not distributed during the vesting period. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of shares and options expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

#### 1.20 – OBLIGATIONS FOR PENSIONS AND SIMILAR EMPLOYEE BENEFITS

Group companies operate various pension schemes. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

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

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

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

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

twelve months after balance sheet date are discounted to present value. The charges for defined benefit plans, defined contribution plans and termination benefits are included in personnel expenses and reported in the income statement under the corresponding functions of the related employees and in expenses for restructuring and impairment.

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

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

#### 1.21 – PROVISIONS

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

#### 1.22 – RESEARCH AND DEVELOPMENT

Research and development expenses are capitalized to the extent that the recognition criteria according to IAS 38 are met. The Group considers that regulatory and other uncertainties inherent in the development of key new products preclude it from capitalizing development costs. At the balance sheet date, no research and development projects met the recognition criteria. Laboratory buildings and equipment included in property, plant and equipment are depreciated over their estimated useful lives. The reason for this practice is the structure of research and

development in the industries that Clariant engages in, making it difficult to demonstrate how singular intangible assets will generate probable future economic benefits.

#### 1.23 – SEGMENT REPORTING

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

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

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

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

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

The **Functional Chemicals Division** products are based on surfactants and polymers. The Detergents Business, which offers anionic and cationic surfactants, as well as bleach activators, is a partner to the detergent industry. Performance Chemicals supplies such different industries as personal care products, crop protection, paints, lacquers and plastics.

The Process Chemicals Business markets products for the production and refining of oil and natural gas and for metal-working, mining and the aerospace and automotive industry. Since January 1, 2007 the division also comprises the activities of Specialty Fine Chemicals which were formerly a part of the Life Science Chemicals Division.

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

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

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

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

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

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

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

#### 1.24 – TREASURY SHARES

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

#### 1.25 – DIVIDEND DISTRIBUTION

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

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

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

#### 1.27 – SHARE CAPITAL

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

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

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

#### 1.28 – FINANCIAL DEBT

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

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

### 1.29 – INVESTMENTS

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

- › **Financial assets at fair value through profit or loss:** This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months of the balance sheet date.
- › **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money and goods directly to a debtor with no intention of trading the receivable. They are included in current assets in the balance sheet.
- › **Held-to-maturity investments:** Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.
- › **Available-for-sale financial assets:** Available-for-sale financial assets are non-derivatives that are either designated to that category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

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

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

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

### 1.30 – EMISSION RIGHTS

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

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

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

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

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

## 2. ENTERPRISE RISK MANAGEMENT

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

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

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

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

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

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

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

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

### 2.1 – ENVIRONMENTAL AND PRODUCT RISKS

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

## 2.2 – LITIGATION

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

## 2.3 – INFORMATION TECHNOLOGY RISKS

Business-critical systems are operated in a central computer center with two physically separated server parks. The Group's global network is managed centrally and its parallel architecture is able to deal with failures or breakdowns. Reliable and permanently updated tools guard against virus attacks. Emergency procedures are practiced regularly.

## 2.4 – FINANCIAL RISK

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

# 3. FINANCIAL RISK MANAGEMENT

## 3.1 – FINANCIAL RISK FACTORS

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

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

### MARKET RISK

#### FOREIGN EXCHANGE RISK

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

foreign operations, when they are denominated in a currency that is not the respective subsidiary's functional currency.

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

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

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

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

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

► **Foreign exchange risk sensitivity:** The estimated percentage change of the following foreign exchange rates used in this calculation is based on the foreign exchange rate volatility for a term of 360 days observed at December 31, 2008.

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

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

At December 31, 2008, if the US dollar had strengthened/weakened by 13 percent (2007: 7 percent) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 22 million higher/lower (2007: CHF 8 million) mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade receivables.

#### INTEREST RATE RISK

› **Exposure to interest rate risk:** Financial debt issued at variable rates and cash and cash equivalents expose the Group to cash flow interest rate risk; the net exposure as per December 31, 2008 was not significant. Financial debt issued at fixed rates does not expose the Group to fair value interest rate risk because it is recorded at amortized cost. At the end of 2008, 96 percent of the net financial debt was at fixed rates (2007: 91 percent).

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

› **Interest rate risk sensitivity:** To calculate the impact of a potential interest rate shift on profit and loss, a weighted average interest rate change was determined, based on the terms of the financial debt issued at variable rates, cash and cash equivalents and the movements of the corresponding interest rates (interest rates comparison between end of 2008 and end of 2007):

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

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

#### OTHER PRICE RISK

With regard to the financial statements the Group was not exposed to other price risk in the sense of IFRS 7, Financial Instruments: Disclosures as per December 31, 2008.

#### CREDIT RISK

› **Exposures to credit risk:** Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. As per December 31, 2008 the Group had no significant concentration of credit risk regarding customers due to diversity.

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

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

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

The table below shows in percent of total cash and cash equivalents the share deposited with each of the three major counterparties at the balance sheet date (excluding the bank managing the euro cash pool):

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

## LIQUIDITY RISK

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

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

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

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

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

## 3.2 – FAIR VALUE ESTIMATION

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

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

## 3.3 – CAPITAL RISK MANAGEMENT

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

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

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

The Group is not subject to externally imposed capital requirements.

Invested Capital was as follows on December 31, 2008 and 2007 respectively:

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

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above in Notes 1.10 and 1.11. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. In the same procedure, the recoverable value of property, plant and equipment is also assessed according to the same rules. These calculations require the use of estimates, in particular in relation to the expected growth of sales, discount rates, the development of raw material prices and the success of restructuring measures implemented (see Notes 5, 6 and 28).

##### (2) ENVIRONMENTAL LIABILITIES

The Group is exposed to environmental regulations in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for environmental remediation. The Group constantly monitors its sites to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The Group recognizes liabilities for environmental remediation

based on the latest assessment of the environmental situation of the individual sites and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts that were previously recorded, such differences will impact the income statement in the period in which such determination was made (see Notes 17, 20 and 34).

##### (3) INCOME AND OTHER TAXES

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

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

##### (4) ESTIMATES FOR THE ACCOUNTING FOR EMPLOYEE BENEFITS

IAS 19, Employee Benefits requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the Group's retirement benefit obligation and pension plan assets (see Note 16).

## 5. PROPERTY, PLANT AND EQUIPMENT

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total	Insured value at December 31
<b>At January 1, 2007</b>							
Cost	564	2 357	5 020	501	124	8 566	
Accumulated depreciation	-167	-1 590	-3 953	-426	-8	-6 144	
<b>Net book value</b>	<b>397</b>	<b>767</b>	<b>1 067</b>	<b>75</b>	<b>116</b>	<b>2 422</b>	
Additions		23	82	13	194	312	
Acquisitions			2			2	
Reclassifications		34	122	10	-166	-	
Reclassified to held for sale					-5	-5	
Disposals	-6	-12	-9	-1	-1	-29	
Depreciation		-60	-178	-26		-264	
Impairment	-10	-25	-39	-1	-3	-78	
Reversal of impairment			1			1	
Exchange rate differences	11	15	13	1	-	40	
<b>At December 31, 2007</b>	<b>392</b>	<b>742</b>	<b>1 061</b>	<b>71</b>	<b>135</b>	<b>2 401</b>	
<b>At December 31, 2007</b>							
Cost	570	2 429	4 789	494	151	8 433	
Accumulated depreciation	-178	-1 687	-3 728	-423	-16	-6 032	
<b>Net book value</b>	<b>392</b>	<b>742</b>	<b>1 061</b>	<b>71</b>	<b>135</b>	<b>2 401</b>	<b>9 237</b>
Additions		25	83	15	147	270	
Acquisitions			3			3	
Reclassifications	1	57	127	7	-192	-	
Disposals	-3	-9	-6	-1	-1	-20	
Depreciation		-58	-164	-22		-244	
Impairment		-49	-67	-		-116	
Reversal of impairment			2			2	
Exchange rate differences	-46	-101	-111	-7	-21	-286	
<b>At December 31, 2008</b>	<b>344</b>	<b>607</b>	<b>928</b>	<b>63</b>	<b>68</b>	<b>2 010</b>	
<b>At December 31, 2008</b>							
Cost	497	2 169	4 253	436	84	7 439	
Accumulated depreciation	-153	-1 562	-3 325	-373	-16	-5 429	
<b>Net book value</b>	<b>344</b>	<b>607</b>	<b>928</b>	<b>63</b>	<b>68</b>	<b>2 010</b>	<b>8 491</b>

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

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

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

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

CGU's net assets by CHF 103 million. If raw material costs were assumed to be one percentage point of sales higher, the carrying amount of the net assets would exceed the recoverable amount by CHF 109 million.

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

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

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

Finance lease liability – minimum lease payments:

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

The present value of finance lease liabilities is as follows:

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

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

## 6. INTANGIBLE ASSETS

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

The amount reported as goodwill is the result of a number of acquisitions in various divisions. All goodwill is tested annually for impairment. Other intangibles comprise patents, trademarks and software etc. Clariant capitalizes internal and external costs incurred in connection with the European regulation REACH if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Apart from this, the Group does not have any internally generated intangible assets. Amortization of intangibles is recorded in Administration and General Overhead costs in the income statement.

Additions to the carrying amount of goodwill in 2008 consist of CHF 19 million arising from the purchase of 100 percent of the shares of the combined Masterbatch companies Rite Systems, Inc. and Ricon Colors, Inc. in the United States. More information on this acquisition can be found in Note 25, Business Combinations.

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

**INTANGIBLE ASSETS (CONTINUED)**

Goodwill is allocated to the following CGUs:

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

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a four-year period. No further growth is assumed beyond this four-year period. The main assumptions used for cash flow projections were EBITDA in percent of sales and sales growth. The assumptions regarding these two variables are based on Management's past experience and future expectations of business performance. The pre-tax discount rates used are based on the Group's weighted average cost of capital adjusted for specific country risks associated with the cash flow projections. The assumed pre-tax discount rate was 10.8 percent for all cash generating units (2007: 10.0 percent).

The major part of goodwill is the amount of CHF 141 million (2007: CHF 231 million) remaining from the BTP acquisition in 2000. This goodwill is allocated to the CGU Leather. For the impairment testing procedure the planning assumptions were critically reviewed as a result of the recovery of the activities which was realized at a slower pace than originally expected. This review resulted in lower expected cash flows from the Leather Business in the coming years and a reduced estimated amount recoverable from the respective net assets calculated on a value in use basis. Consequently an impairment of the goodwill allocated to the CGU in the amount of CHF 90 million was recorded. This impairment is reported in the line "Restructuring and impairment" in the income statement. For the impairment testing procedure it was assumed that the CGU would achieve sales growth above market growth for the planning period. It was also assumed that EBITDA will increase over present performance due to the optimization of structural costs.

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

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

The CGU Pigments & Additives holds goodwill in the amount of CHF 27 million, the CGU Masterbatches holds goodwill in the amount of CHF 48 million and the CGU Functional Chemicals holds goodwill in the amount of CHF 7 million. For all these CGUs it was assumed that they achieve sales growth in line with market growth. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented. For all these CGUs it was determined that the net present value of their expected cash flows exceeds the carrying amount of the net assets allocated on a value in use basis.

## 7. INVESTMENTS IN ASSOCIATES

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

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

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
<b>2007</b>						
Infraserv GmbH & Co. Höchst KG	Germany	1 457	874	1 473	58	32
Infraserv GmbH & Co. Gendorf KG	Germany	221	120	404	12	50
Infraserv GmbH & Co. Knapsack KG	Germany	195	87	304	10	21
Others		166	60	242	17	
<b>Total</b>		<b>2 039</b>	<b>1 141</b>	<b>2 423</b>	<b>97</b>	
<b>2008</b>						
Infraserv GmbH & Co. Höchst KG	Germany	1 460	936	1 665	47	32
Infraserv GmbH & Co. Gendorf KG	Germany	236	140	445	9	50
Infraserv GmbH & Co. Knapsack KG	Germany	199	89	309	23	21
Others		107	39	167	11	
<b>Total</b>		<b>2 002</b>	<b>1 204</b>	<b>2 586</b>	<b>90</b>	

There were no unrecognized losses in the years 2008 and 2007. No accumulated unrecognized losses existed as at the balance sheet date.

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

## 8. FINANCIAL ASSETS

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

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

Financial assets are denominated in the following currencies:

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

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

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

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

## 9. TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

**TAXES (CONTINUED)**

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

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

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

The tax credits expire between 2009 and 2013.

**10. INVENTORIES**

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

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

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

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

**11. TRADE RECEIVABLES**

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

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

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

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

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

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

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

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

The maximum credit risk on trade receivables is equal to their fair value. Collaterals are only taken in rare cases (2008: CHF 6 million, 2007: CHF 5 million).

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

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

As of December 31, 2008, trade receivables in the amount of CHF 171 million (2007: CHF 214 million) were past due, but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

CHF mn	31.12.2008	31.12.2007
up to 3 months past due, but not impaired	160	200
3 to 6 months past due, but not impaired	9	12
more than 6 months past due, but not impaired	2	2
<b>Total trade receivables – net</b>	<b>171</b>	<b>214</b>

## 12. OTHER CURRENT ASSETS

Other current assets include the following:

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

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

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

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

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

There was no impairment of current financial assets in 2008 and 2007.

Other receivables are denominated in the following currencies:

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

Current financial assets are denominated in the following currencies:

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

## 13. CASH AND CASH EQUIVALENTS

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

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

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

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

## 14. CHANGES IN SHARE CAPITAL AND TREASURY SHARES

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

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

All shares are duly authorized and fully paid in.

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

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

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

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

## 15. NON-CURRENT FINANCIAL DEBTS

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

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

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

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

## NON-CURRENT FINANCIAL DEBTS (CONTINUED)

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

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

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

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

### Exposure of the Group's borrowings to interest rate changes

- › Bonds: The interest rates of all bonds are fixed.
- › Liabilities to banks and other financial institutions: mostly consisting of syndicated bank loans with variable interest rates (LIBOR plus applicable margin according to a defined pricing grid based on the Group's performance).
- › Other financial debts: Mostly current debt at variable interest rates.
- › Certificate of Indebtedness, issued in two parts: A part of EUR 20 million with a fixed interest rate of 6.22 percent and a second part of EUR 80 million with a floating interest rate of 6.485 percent as at December 31, 2008.

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

The assets are pledged at the usual market conditions.

## 16. RETIREMENT BENEFIT OBLIGATIONS

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

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

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

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

Changes in the present value of defined benefit obligations:

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

Changes in the fair value of plan assets:

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

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

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

**RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

The amounts recognized in the balance sheet:

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

Thereof recognized in:

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

The amounts recognized in the income statement are as follows:

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

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

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

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

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

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

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

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

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

The weighted average expected long-term rate of return on plan assets represents the average rate of return expected to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Group considers long-term compound annualized returns of historical market data for each asset category, as well as historical actual returns on the Group's plan assets. Using this reference information, the Group develops for each pension plan a weighted average expected long-term rate of return.

**RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)**

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

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

Amounts for current and previous periods:

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

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

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

Based on the statutory actuarial calculation of 2007, the pension fund's obligations are fully funded. Also for 2008 it is anticipated that the pension plan liabilities are covered by the respective assets.

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

Clariant contributions to this pension plan amounted to CHF 17 million in 2008 (CHF 18 million in 2007).

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

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

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

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

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

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

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

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

**Restructuring provisions.** Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources and which is expected to occur twelve months or more after the end of the reporting period. The term restructuring refers to the activities that have as a consequence staff redundancies and the shutdown of production lines or entire sites.

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

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

## 18. TRADE PAYABLES

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

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

## 19. CURRENT FINANCIAL DEBTS

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

Breakdown by maturity:

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

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

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

## 20. MOVEMENTS IN PROVISIONS FOR CURRENT LIABILITIES

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

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

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

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

**Restructuring provisions.** Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources and which is expected to occur within the next twelve months. The term restructuring refers to the activities that have as a consequence staff redundancies and the shutdown of production lines or entire sites.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<sup>4</sup> **Discontinued operations**

CHF mn

Investment in PPE and intangibles

Systematic depreciation

**2008**

2007

–

6

–

–

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

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

**Custom Manufacturing.** In September 2006, Clariant launched a project to sell its Custom Manufacturing Business pertaining to the former Division Life Science Chemicals. On June 29, 2007, the business, comprising sites in Germany and the United States, was transferred to International Chemical Investors Group (ICIG). As a result, these activities are reported as discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

The result of discontinued operations of Custom Manufacturing is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

On reclassification to non-current assets held for sale in the year 2007, these balance sheet items were revalued to the lower of book value or fair value less costs to sell. This revaluation caused an impairment devaluation of CHF 3 million relating to Australian Masterbatch activities and 2 million relating to its textile, leather and paper activities, which is reported in the income statement line "Restructuring and Impairment".

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

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

## 25. BUSINESS COMBINATIONS

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

on January 1, 2008, Group sales would have increased additionally by CHF 27 million and net income would have increased additionally by CHF 2 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from January 1, 2008, together with the consequential tax effects. Acquisition related costs amounted to CHF 0.3 million.

Details of net assets acquired and goodwill are as follows:

### Purchase consideration

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

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

The assets and liabilities as of July 1, 2008 arising from the acquisition are as follows:

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

**Toschem.** On October 1, 2007, Clariant acquired the Colombian company Toschem de Colombia Ltda, a leading supplier of chemicals and services to the oil and gas and industrial water treatment markets in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 2 million and net profit of less than CHF 1 million to the Group for the period from October 1, 2007 to December 31, 2007. If the acquisition had occurred on January 1, 2007, Group sales would have increased by CHF 8 million and net income would have increased by less than

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

Details of net assets acquired and goodwill are as follows:

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

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

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

**BUSINESS COMBINATIONS (CONTINUED)**

**Masterandino.** On November 1, 2007, Clariant acquired the Colombian company Masterandino, a Masterbatch producer in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 1 million and net profit of less than CHF 1 million to the Group for the period from November 1, 2007 to December 31, 2007. If the acquisition

had occurred on January 1, 2007, Group sales would have increased by CHF 6 million and net income would have increased by CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary's to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from January 1, 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

**Purchase consideration**

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

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

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

## 26. FINANCE INCOME AND COSTS

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

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

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

In 2008 and 2007, no gains or losses on fair value hedges or cash flow hedges transferred from equity, no ineffective parts of cash flow hedges or hedges of a net investment were recorded in the income statement.

## 27. EARNINGS PER SHARE (EPS)

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

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

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

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

## 28. RESTRUCTURING AND IMPAIRMENT

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

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

In July 2008, Clariant announced the closure of its production site in Horsforth, UK pertaining to the divisions Textile, Leather & Paper Chemicals and Pigments & Additives by early 2009. The closure will result in a substantial headcount reduction entailing restructuring and impairment costs in the amount of CHF 27 million. Additionally, the useful life of the assets of the site concerned was reassessed and brought in line with the timing of the plant closure. This led to additional depreciation in the amount of CHF 21 million to be charged to the income statement in 2008 and 2009. This charge would have been reported in subsequent periods, had it not been decided to close the plant. As this depreciation charge is clearly distinct from the depreciation charged in the regular course of business excluding any site closures, it is posted to the line "Restructuring and impairment" in the income statement.

The amount charged to the income statement for the accelerated depreciation of the assets of the Coventry site amounts to CHF 9 million in 2008 (2007: CHF 4 million). The expenses concern the Pigments & Additives division.

In 2007, the Clariant Group recorded expenses for restructuring in the amount of CHF 185 million in Continuing Operations for projects mainly in Germany, the United Kingdom and the United States.

**Impairment.** As a result of the permanent endeavors to improve the Company's performance, PPE are regularly reviewed for their cash-generating potential. In numerous cases it was evident that such assets were impaired, as they would no longer be utilized and as a consequence they were written off.

Clariant also assessed the recoverability of the carrying amount of non-current assets of several cash generating units (CGU) in 2007 and 2008. For this purpose, assets were grouped at the lowest levels for which there are separately identifiable cash flows. An impairment loss was recognized as an expense in the income statement in the amount by which the carrying amount of the assets exceeded the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. Further information on impairments can be found in Note 5, Property, Plant and Equipment and Note 6, Intangible Assets.

**RESTRUCTURING AND IMPAIRMENT (CONTINUED)**

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

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

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

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

In 2008 and 2007, Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 57.5 million in each year.

### 30. FINANCIAL INSTRUMENTS

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

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

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

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

The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent the amount at risk. The fair values represent market value or standard pricing models at December 31, 2008 and 2007, respectively.

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

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

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

**FINANCIAL INSTRUMENTS (CONTINUED)**

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

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

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

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

**Securitization.** For a number of years, Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in asset-backed securities (ABS) programs. Clariant retains the credit risk of the trade receivable and the interest rate risk liability incurred. Therefore the trade receivables are not derecognized from the balance sheet until payments from the customers are obtained and a current financial liability is recorded for the amount borrowed under the security of the trade receivables.

### 31. EMPLOYEE PARTICIPATION PLANS

Clariant maintains an incentive plan called the Clariant Executive Bonus Plan (CEBP).

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

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

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

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

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

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

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

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

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

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2008	Number 31.12.2007
1998	1998	2001	2008	53.80	56.76		10 137
1999	1999	2002	2009	61.80	60.76	10 418	10 418
2000	2000	2003	2010	48.00	47.97	6 229	6 229
2008	2008	2010	2013	12.50	8.58	260 000	–
<b>Total</b>						<b>276 647</b>	<b>26 784</b>

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

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

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2008	Number 31.12.2007
1997	1998	2001	2008	25.50	68.97		127 783
1997	1998	2001	2008	37.50	73.06		167 001
1998	1999	2002	2009	61.80	62.09	358 789	358 789
1999	2000	2003	2010	48.00	47.97	106 191	106 191
2000	2001	2004	2011	41.80	42.02	7 229	7 229
2001	2002	2005	2012	27.20	26.87	166 354	166 354
2002	2003	2006	2013	14.80	14.88	87 352	87 352
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	53 479	53 479
2004	2005	2008	2015	19.85	19.85	146 237	146 237
<b>Total</b>						<b>974 957</b>	<b>1 269 741</b>

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

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

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

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

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

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

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

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

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

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

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

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

### 32. PERSONNEL EXPENSES

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

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

### 33. RELATED PARTY TRANSACTIONS

Clariant maintains business relationships with related parties. One group consists of the associates, where the most important ones are described in Note 7. The most important business with these companies is the purchase of services by Clariant (e.g. energy and rental of land and buildings) in Germany. In addition to this, Clariant exchanges services and goods with other parties which are associates, i.e. in which Clariant holds a stake of between 20 percent and 50 percent.

The second group of related parties is key management comprising the Board of Directors and the Board of Management. The information required by Art. 663b<sup>bis</sup> of the Swiss Code of Obligations regarding the emoluments for the members of the Board of Directors and the Board of Management is disclosed in the Statutory Accounts of Clariant Ltd on pages 125 to 128 of this report. More information on the relationship with the Board of Directors is given in the chapter **Corporate governance** (non-audited).

The third group of related parties are the pension plans of major subsidiaries. Clariant provides services to its pension plans in Switzerland, the UK and the US. These services comprise mainly administrative and trustee services. The total cost of these services is CHF 1 million (2007: CHF 1 million), of which approximately half is charged back to the pension plans. The number of full-time employees corresponding to these are approximately 6 (2007: 6).

<b>Transactions with associates</b>	<b>2008</b>	<b>2007</b>
<i>CHF mn</i>		
Income from the sale of goods to related parties	27	37
Income from the rendering of services to related parties	3	4
Expenses from the purchase of goods to related parties	-46	-27
Expenses from services rendered by related parties	-266	-255

<b>Payables and receivables with associates</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
<i>CHF mn</i>		
Receivables from related parties	5	8
Payables to related parties	42	45

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

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

### 34. COMMITMENTS AND CONTINGENCIES

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

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

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

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

**Purchase commitments.** In the regular course of business, Clariant enters into relationships with suppliers whereby the Group commits itself to purchase certain minimum quantities of materials in order to benefit from better pricing conditions. These commitments are not in excess of current market prices and reflect normal business operations. At present, the purchase commitments on such contracts amount to about CHF 75 million (2007: CHF 106 million).

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

In 2006, Clariant sold its Pharmaceutical Fine Chemicals business to Archimica, a company pertaining to Towerbrook Capital Partners. On October 25, 2007, Archimica Group Holdings B.V. filed a request for arbitration against Clariant at the Zurich Chamber of Commerce, raising various claims under the purchase agreement in an amount of EUR 42 million. In January 2009, the claim was settled with an impact of CHF 9 million on the income statement. This settlement is fully recognized in the books in 2008.

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

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

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

### 35. EXCHANGE RATES OF PRINCIPAL CURRENCIES

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

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

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

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

## 36. IMPORTANT SUBSIDIARIES

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
<b>Argentina</b>	Clariant (Argentina) SA, Lomas de Zamora, Buenos Aires	100.0		■	■	
<b>Australia</b>	Clariant (Australia) Pty. Ltd, Glen Waverley	100.0		■	■	
<b>Austria</b>	Clariant (Österreich) GmbH, Vienna	100.0		■	■	
<b>Bangladesh</b>	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
<b>Belgium</b>	Clariant Masterbatches Benelux SA, Louvain-La-Neuve	100.0		■	■	
	Clariant Distribution (Belgium) S.A. NV	100.0		■		
<b>Brazil</b>	Clariant S.A., São Paulo	100.0		■	■	
<b>Canada</b>	Clariant (Canada) Inc., St. Laurent, Québec	100.0		■	■	
<b>Chile</b>	Clariant Colorquímica (Chile) Ltda., Maipú-Santiago de Chile	100.0		■	■	
<b>China</b>	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Masterbatches (Guangzhou) Ltd, Guangzhou	100.0		■	■	
	Clariant Masterbatches (Shanghai) Ltd, Shanghai	100.0		■	■	
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
<b>Colombia</b>	Clariant (Colombia) SA, Cota-Cundinamarca	100.0		■	■	
<b>Denmark</b>	Clariant (Danmark) A/S, Store Heddinge	100.0		■		
<b>Ecuador</b>	Clariant (Ecuador) S.A., Quito	100.0		■		
<b>Egypt</b>	Clariant (Egypt) SAE, Cairo	90.8		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
<b>Finland</b>	Clariant (Finland) Oy, Vantaa	100.0		■		
	Clariant Masterbatches (Finland) Oy, Vantaa	100.0		■	■	
<b>France</b>	Clariant Distribution (France), Nanterre	100.0		■		
	Clariant Masterbatches (France), Nanterre	100.0		■	■	
	Clariant Masterbatches Huningue, Nanterre	100.0		■	■	■
	Clariant Production (France), Nanterre	100.0			■	■
<b>Germany</b>	Clariant Masterbatches (Deutschland) GmbH, Lahnstein	100.0		■	■	■
	Clariant Produkte (Deutschland) GmbH, Frankfurt-Höchst	100.0	■		■	■
	Clariant Vertrieb (Deutschland) GmbH und Co. KG, Frankfurt-Höchst	100.0		■		
<b>Great Britain</b>	Clariant Distribution UK Limited, Horsforth/Leeds	100.0		■		
	Clariant Production UK Ltd, Horsforth/Leeds	100.0			■	■
<b>Greece</b>	Clariant (Hellas) SA, Lykovrisi	100.0		■		
<b>Guatemala</b>	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
<b>Honduras</b>	Clariant Honduras S.A. de C.V., San Pedro Sula	100.0		■	■	
<b>India</b>	Clariant Chemicals (India) Ltd, Mumbai	63.4		■	■	■
<b>Indonesia</b>	PT Clariant Indonesia, Tangerang	100.0		■	■	
<b>Ireland</b>	Clariant Masterbatches Ireland Limited, Naas	100.0		■	■	
<b>Italy</b>	Clariant Distribuzione (Italia) S.p.A., Milan	100.0		■		
	Clariant Masterbatches (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Prodotti (Italia) S.p.A., Milan	100.0			■	
<b>Japan</b>	Clariant (Japan) K.K., Tokyo	100.0		■	■	■

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

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

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

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

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

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

#### *Board of Directors' Responsibility*

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

#### *Auditor's Responsibility*

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

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

#### *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### REPORT ON OTHER LEGAL REQUIREMENTS

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

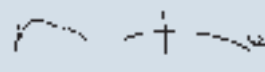
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Daniel Suter  
Audit expert



Dr. Matthias Jeger  
Audit expert  
Auditor in charge

Basel, 12 February 2009

## REVIEW OF TRENDS

### FIVE-YEAR GROUP OVERVIEW

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

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

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

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

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

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

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

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

## **NOTES TO THE FINANCIAL STATEMENTS OF CLARIANT LTD**

### **1. ACCOUNTING POLICIES**

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

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

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

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

### **2. FINANCIAL ASSETS**

After a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, the investment (including non-current loans) in some of these companies were written down by CHF 551 million (prior year CHF 200 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 114 and 115 of the Financial Report of the Clariant Group.

### **3. CASH, MARKETABLE SECURITIES AND CURRENT FINANCIAL ASSETS**

Securities include treasury shares valued at fair market value in the amount of CHF 27 million (prior year CHF 37 million) (see also note 6).

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

On 10 April 2008 the Shareholders' Meeting approved the repayment of share capital in the amount of CHF 57 540 000.

Paid-in share capital was decreased by CHF 57 540 000 to a total of CHF 920 640 000.

## 5. SHARE CAPITAL

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

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

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

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

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

## 7. RECONCILIATION OF EQUITY

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

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

## 8. STRAIGHT BONDS AND CERTIFICATE OF INDEBTEDNESS

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

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

## 9. GENERAL RESERVES

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

## 10. RESERVE FOR TREASURY SHARES

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

## 11. CONTINGENT LIABILITIES

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

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

### 1. BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

**Options held**

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

## 2. BOARD OF MANAGEMENT

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

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

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

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

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

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

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

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

### Shares held

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

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

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

**13. VOTING AND LEGAL REGISTRATION LIMITATIONS**

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

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

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

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

**15. RISK MANAGEMENT**

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

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

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

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

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

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

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

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

#### *Board of Directors' Responsibility*

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

#### *Auditor's Responsibility*

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

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

#### *Opinion*

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

### REPORT ON OTHER LEGAL REQUIREMENTS

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

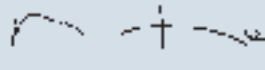
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed transfer of accumulated losses against free reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Daniel Suter  
Audit expert



Dr. Matthias Jeger  
Audit expert  
Auditor in charge

Basel, 12 February 2009

***FORWARD-LOOKING STATEMENTS***

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

### **Publisher**

Clariant International Ltd, Muttenz

#### *Managing Editor*

Nigel Thornton

#### *Financial Editor*

Philipp Baberschke

### **Contacts**

#### *Head of Group Communications*

Arnd Wagner

Tel: +41 61 469 61 58

Fax: +41 61 469 65 15

#### *Head of External Communications*

Nigel Thornton

Tel: + 41 61 469 67 43

Fax: + 49 69 305 87 17 9

#### *Head of Investor Relations*

Ulrich Steiner

Tel: +41 61 469 67 45

Fax: +41 61 469 67 67

#### *Website*

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

### **Consultant on sustainability reporting**

sustainserv, Zurich and Boston

### **Concept, Design, Graphics and Layout**

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#### **To order publications:**

Use the Clariant website or write to

Clariant International Ltd

Investor Relations

Rothausstrasse 61

4132 Muttenz

Switzerland

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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.

### **Disclaimer**

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

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

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