
Consolidated financial statements of the Clariant Group

Consolidated balance sheets	68
Consolidated income statements	69
Consolidated statements of cash flows	70
Consolidated statement of changes in equity	71
Notes to the consolidated financial statements	72
Report of the Group auditors	103

Review of trends

Five-year Group overview	104
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Financial statements of Clariant Ltd, MuttENZ

Clariant Ltd balance sheets	106
Clariant Ltd income statements	107
Notes to the financial statements of Clariant Ltd	108
Appropriation of available earnings	110
Proposed payout of nominal value reduction	110
Report of the statutory auditors	111

Forward-looking statements	112
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Consolidated financial statements of the Clariant Group

Consolidated balance sheets

at 31 December 2004 and 2003

Assets	Notes ¹	2004		2003	
		CHF mn	%	CHF mn	%
Long-term assets					
Tangible fixed assets	2	2 440		2 776	
Intangible assets	3	405		451	
Investments in associated companies	4	226		312	
Financial and other long-term assets	5	96		107	
Deferred tax assets	6	279		291	
Total long-term assets		3 446	44.2	3 937	49.2
Short-term assets					
Inventories	7	1 325		1 569	
Trade accounts receivable	8	1 133		1 259	
Other short-term assets	9	424		309	
Cash and cash equivalents	10	1 477		929	
Total short-term assets		4 359	55.8	4 066	50.8
Total assets		7 805	100.0	8 003	100.0
Equity and liabilities					
	Notes ¹	2004		2003	
		CHF mn	%	CHF mn	%
Equity					
Share capital	11	1 151		767	
Treasury shares (par value)	11	- 16		- 18	
Reserves		529		23	
Retained earnings		538		404	
Total equity		2 202	28.2	1 176	14.7
Minority interests		56	0.7	64	0.8
Liabilities					
Long-term liabilities					
Financial debts	12	1 723		2 620	
Deferred tax liabilities	6	373		384	
Provisions for long-term liabilities	14	837		893	
Total long-term liabilities		2 933	37.6	3 897	48.7
Short-term liabilities					
Trade and other accounts payable	15	1 165		1 148	
Financial debts	16	931		1 214	
Taxes payable		153		141	
Provisions for short-term liabilities	17	365		363	
Total short-term liabilities		2 614	33.5	2 866	35.8
Total liabilities		5 547	71.1	6 763	84.5
Total equity and liabilities		7 805	100.0	8 003	100.0

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

Consolidated income statements

for the years ended 31 December 2004 and 2003

	Notes ¹	2004		2003	
		CHF mn	%	CHF mn	%
Sales	18, 19	8 530	100.0	8 516	100.0
Cost of goods sold		- 5 823		- 5 787	
Gross profit		2 707	31.7	2 729	32.0
Marketing and distribution		- 1 262		- 1 292	
Research and development		- 274		- 308	
Income from associated companies	4	26		29	
Administration and general overhead costs		- 564		- 547	
Gain from the sale of discontinuing operations, subsidiaries and associated companies	21	63		239	
Restructuring and impairment	24	- 136		- 260	
Amortization of goodwill		- 30		- 31	
Operating income		530	6.2	559	6.6
Finance costs-net	22	- 233		- 275	
Income before taxes and minority interests		297		284	
Taxes	6	- 140		- 111	
Income before minority interests		157	1.8	173	2.0
Minority interests		- 7		- 12	
Net income		150	1.8	161	1.9
Earnings per share (CHF/share)	23	0.71		0.93 ²	
Diluted earnings per share (CHF/share)	23	0.71		0.93 ²	

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

² Restated for the dilution as a result of the capital increase.

Consolidated statements of cash flows

for the years ended 31 December 2004 and 2003

	Notes ¹	2004 CHF mn	2003 CHF mn
Net income		150	161
Depreciation of tangible fixed assets	2	345	520
Amortization of intangible assets	3	40	40
Change in long-term liabilities		216	36
Interest paid		- 161	- 176
Income taxes paid		- 104	- 136
Gain before recycled exchange rate variances and taxes from the sale of discontinuing operations, subsidiaries and associated companies	21	- 63	- 239
Other noncash items		46	33
Cash flow before changes in working capital		469	239
Change in inventory		15	- 19
Change in trade accounts receivable		39	12
Change in trade accounts payable		90	- 68
Change in other short-term assets and liabilities		193	163
Cash flow from operating activities		806	327
Investments in tangible fixed assets	2	- 289	- 301
Investments in intangible assets	3	- 8	- 4
Sale of tangible and intangible assets		10	26
Acquisition of companies, businesses and participations ²		- 24	- 3
Proceeds from the sale of discontinuing operations, subsidiaries and associated companies	21	385	371
Dividends received		31	32
Interest received		23	8
Cash flow from investing activities		128	129
Proceeds from the issuance of share capital		877	0
Treasury share transactions	11	16	5
Repayment of long-term financial debts		- 234	- 454
Change in short-term financial debts		- 1 002	209
Dividends paid to third parties		- 30	0
Cash flow from financing activities		- 373	- 240
Currency translation effect on cash and cash equivalents		- 13	- 5
Net change in cash and cash equivalents		548	211
Cash and cash equivalents at the beginning of the period		929	718
Cash and cash equivalents at the end of the period		1 477	929

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

² During 2004 all shares held by minority shareholders of Clariant in Korea were acquired for CHF 24 million.

Consolidated statement of changes in equity

for the years ended 31 December 2004 and 2003

CHF mn	Notes ¹	Reserves							Retained earnings	Total equity
		Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total			
Balance 31 December 2002		767	- 19	1 888	- 3	- 344	1 541	- 1 375	914	
Cash flow hedges										
Net fair value gains (losses)					- 5		- 5		- 5	
Net investment hedges						1	1		1	
Exchange rate differences on translating foreign operations						100	100		100	
Net income recognized directly in equity		0	0	0	- 5	101	96	0	96	
Net income							0	161	161	
Total recognized income and expense for the period		0	0	0	- 5	101	96	161	257	
Appropriation of losses incurred to share premium				- 1 614			- 1 614	1 614	0	
Treasury share transactions			1				0	4	5	
Balance 31 December 2003		767	- 18	274	- 8	- 243	23	404	1 176	
Cash flow hedges										
Net fair value gains (losses)					3		3		3	
Net investment hedges						30	30		30	
Exchange rate differences on translating foreign operations						- 20	- 20		- 20	
Net income recognized directly in equity		0	0	0	3	10	13	0	13	
Net income							0	150	150	
Total recognized income and expense for the period		0	0	0	3	10	13	150	163	
Dividends to third parties							0	- 30	- 30	
Issuance of share capital		384		493			493		877	
Treasury share transactions			2				0	14	16	
Balance 31 December 2004		1 151	- 16	767	- 5	- 233	529	538	2 202	

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

During 2004 Clariant issued new shares amounting to nominal capital of CHF 384 million (76 720 000 shares at CHF 5 per share).

Transaction costs relating to the issuance of share capital in the amount of CHF 44 million were deducted from the share premium.

1. Accounting policies

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

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

The consolidated financial statements have been approved for issue by the Board of Directors on 2 March 2005.

Basis of preparation. The consolidated financial statements of the Clariant Group comply with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and with International Accounting Standards (IAS) and interpretations formulated by its predecessor organization, the International Accounting Standards Committee (IASC), as well as with the following significant accounting policies.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Changes in accounting policies. There were no significant changes in accounting policies in the periods presented.

International Financial Reporting Standards. There were no revised or new standards or interpretations that became effective from 1 January 2004 that had a significant effect on the Group's financial statements.

In late 2003, the International Accounting Standards Board (IASB) published a revised version of IAS 32 'Financial Instruments: Disclosure and Presentation,' a revised version of IAS 39 'Financial Instruments: Recognition and Measurement' and 'Improvements to International Accounting Standards,' which makes changes to 14 existing standards. In the first quarter of 2004, the IASB published IFRS 2 'Share-based Payment,' IFRS 3 'Business Combinations,' IFRS 4 'Insurance Contracts,' IFRS 5 'Noncurrent Assets Held for Sale and Discontinued Operations,' revised versions of IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets' and further amendments to IAS 39. The Group will adopt these new and revised standards effective January 1, 2005 and estimates that the most significant effects on the results will come from the implementation of IFRS 2 and IFRS 3.

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.

■ **Investments in associates.** Investments in associates are accounted for by the equity method of accounting. Under this method 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. Associates are entities where the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

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

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.

Reclassification. Certain prior year balances have been reclassified to conform with the current year presentation.

Revenue recognition. Sales 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 account of 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.

Exchange rate differences.

- **Measurement currency.** Items included in the financial statements of each entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Swiss francs, which is the measurement currency of the parent.
- **Transactions and balances.** Foreign currency transactions are translated into the measurement 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.
- **Group companies.** Income statements and cash flows of foreign entities are translated into the Group's presentation currency at sales weighted average exchange rates for the year and their balance sheets are translated at the exchange rates prevailing on 31 December. Exchange rate differences arising on the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. 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.

Tangible fixed assets. Tangible fixed assets 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 |

Financing costs associated with the construction of tangible fixed assets are not capitalized.

Intangible assets. Goodwill, arising when the acquisition cost of an investment is in excess of the fair value of net assets acquired, is capitalized and amortized using the straight-line method over its estimated useful life (a period not exceeding twenty years). Other purchased intangible assets – such as patents, trademarks and other rights – are capitalized at historical cost and amortized on a straight-line basis to the income statement over their estimated useful lives, with a maximum of ten years.

Impairment of assets. Tangible fixed assets and other long-term assets, including goodwill and other intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating unit).

An impairment loss is recognized as an expense in the income statement and is first allocated to the goodwill allocated to the cash generating unit and then to the other assets of the cash generating unit. An impairment loss may be reversed, for assets excluding goodwill, in subsequent periods if and only if there is a change in the estimates used to determine the asset's recoverable amount. Impairment loss for goodwill is not reversed unless in subsequent periods there is a reversal of the effect of a specific external event of an exceptional nature that caused impairment.

Inventories. Purchased goods are valued at acquisition cost, while self-manufactured products are valued at manufacturing costs including related production overhead costs. Inventory held at the balance sheet date is primarily valued at standard cost, which approximates to actual costs on a first in, first out 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 market value or which is slow-moving. Unsaleable inventory is fully written off.

Trade accounts receivable. Trade receivables are carried at original invoice amount less provision made for doubtful receivables. A provision for doubtful trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

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.

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

On the date a derivative contract is entered into, Clariant designates certain derivatives as either a) a hedge of the fair value of a recognized asset or liability (fair value hedge), or b) a hedge of a forecasted 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 derivative financial instruments in fair value hedges that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges are recognized as a hedging reserve in shareholders' equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement. Hedges of net investments in foreign entities are accounted for similar to cash flow hedges. Clariant hedges certain net investments in foreign entities with foreign currency borrowings and cross-currency swaps. All foreign exchange gains and losses on translation are recognized in equity and included in cumulative translation differences.

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 forecasted transaction is ultimately recognized in the income statement. However, if a forecasted 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.

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

Current taxes. The taxable profit (loss) of Group companies, on which the reporting period's income taxes payable (recoverable) are 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 taxes for current and prior periods, to the extent they are unpaid, are recognized as liabilities. In case taxes already paid in respect of current and prior periods exceed the tax liability amount of those periods, the exceeding amounts are recognized as assets. Current tax assets and current 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.

Deferred taxes. Deferred taxes are calculated using the comprehensive liability method. These result from the temporary differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and those prepared for consolidation purposes. An exception is that no deferred 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 long-term assets and long-term 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.

Equity compensation benefits. Clariant has two equity compensation plans, the Executive Stock Option Plan (ESOP) and the Management Stock Incentive Plan (MSIP), under which specific groups of executives and managers are granted a certain number of registered shares in Clariant Ltd or options to buy these shares at a predetermined strike price. The costs related to the granted shares are first determined as fixed amounts denominated in the currency of the subsidiary that grants the shares. Based on the share price at grant date and taking into account the probability that all persons covered by the plan will still be employed at the vesting date, the number of shares is estimated to cover the obligation arising on share-based payments. The costs related to the granted shares are deferred to the vesting period, and are included in personnel expenses and reported in the income statement under the corresponding functions of the related employees. The grant of options has no effect on the income statement. At each balance sheet date, the entity revises its estimates of the number of shares 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.

Obligations for pensions and similar employee benefits. For defined benefit plans (pension and other post-retirement benefits) 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. These valuations are performed by independent actuaries.

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

Contributions to defined contribution plans are recorded in the income statement in the period to which they relate.

Termination benefits are provided for in accordance with the legal requirements of certain countries.

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.

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 obligations it must be probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognized as a provision is the best estimate (most probable outcome) of the expenditure required to settle the present obligation at the balance sheet date. The long-term provisions are discounted if the impact is material.

Research and development. Research and development expenses are fully charged to the income statement. The Group considers that regulatory and other uncertainties inherent in the development of new key products preclude it from capitalizing development costs. Laboratory buildings and equipment included in tangible fixed assets 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.

Financial assets. Minority investments, other than associated companies, are initially recorded at cost on the date of the transaction and subsequently carried at fair value. Exchange rate gains and losses on loans are recorded in the income statement. Originated loans are carried at amortized cost, less any allowances for uncollectable amounts. All other financial assets are carried at fair value, and changes in the fair value of these financial assets are recognized directly in the income statement. All purchases and sales of financial assets are recognized on settlement date, which is the date that Clariant settles the transaction.

Financial liabilities. Financial debts are recognized as soon as the proceeds are received, less any transaction costs incurred. Financial debts are subsequently stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

Segment reporting. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that are subject to risks and returns that are different from those operating in other economic environments. The Group designates business segments as its primary reportable segments and geographical segments as its secondary reportable segments.

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

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

Intersegment sales are determined on an arms-length basis. Income and expenses relating to Corporate include the cost of 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. Usually no allocation of corporate items is made to the divisions.

Division and business unit net operating assets consist primarily of tangible fixed assets, intangible assets, inventories and receivables less operating liabilities. Corporate assets and liabilities principally consist of net liquidity (cash, cash equivalents and other short-term financial assets less financial debts), and deferred and current taxes.

Treasury shares. Treasury shares are deducted from equity at their par value of CHF 5 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of, treasury shares are recorded in retained earnings.

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.

2. Tangible fixed asset movements

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total 2004	Total 2003
Costs							
At 1 January	637	2 392	5 132	577	163	8 901	8 874
Additions	3	25	95	18	148	289	301
Reclassifications	- 1	28	99	12	- 138	0	0
Disposals	- 27	- 112	- 320	- 85	- 23	- 567	- 519
Translation effects	- 19	- 59	- 113	- 14	- 3	- 208	245
At 31 December	593	2 274	4 893	508	147	8 415	8 901
Accumulated depreciation							
At 1 January	- 151	- 1 508	- 3 983	- 483	-	- 6 125	- 5 819
Additions	0	- 64	- 207	- 35	-	- 306	- 354
Reclassifications	0	- 1	3	- 2	-	0	0
Disposals	0	39	242	73	-	354	415
Impairment	0	- 17	- 21	- 1	-	- 39	- 166
Translation effects	2	38	87	14	-	141	- 201
At 31 December	- 149	- 1 513	- 3 879	- 434	-	- 5 975	- 6 125
Book value at 31 December	444	761	1 014	74	147	2 440	2 776
Insured value at 31 December						9 862	10 934

The capitalized cost of tangible fixed assets under lease contracts at 31 December 2004 amounts to CHF 25 million with a book value of CHF 10 million (2003: CHF 20 million and CHF 7 million, respectively).

As at 31 December 2004, commitments for the purchase of tangible fixed assets totaled CHF 45 million (2003: CHF 51 million).

3. Intangible asset movements

CHF mn	Goodwill	Other	Total 2004	Total 2003
Costs				
At 1 January	2 807	129	2 936	2 939
Additions	17	8	25	6
Disposals	- 17	- 22	- 39	- 7
Translation effects	0	- 2	- 2	- 2
At 31 December	2 807	113	2 920	2 936
Accumulated amortization				
At 1 January	- 2 388	- 97	- 2 485	- 2 450
Amortization	- 30	- 10	- 40	- 40
Disposals	0	10	10	6
Translation effects	- 2	2	0	- 1
At 31 December	- 2 420	- 95	- 2 515	- 2 485
Book value at 31 December	387	18	405	451

The amount reported as goodwill is the result of a number of acquisitions in various divisions. The principal amount is the goodwill arising on the acquisition of BTP in 2000 with a carrying amount of CHF 330 million pertaining to the Textile, Leather & Paper Chemicals Division. It

is amortized over twenty years. Other intangibles comprise patents, trademarks and software, etc. Clariant does not have any internally generated intangible assets.

4. Investments in associated companies

	Participation		Balance sheet value		Effect on the income statement	
	%	%	CHF mn	CHF mn	CHF mn	CHF mn
	31.12.2004	31.12.2003	31.12.2004	31.12.2003	2004	2003
Infraserv GmbH & Co. Höchst KG	32	32	137	141	14	15
SF-Chem AG ¹	0	25	0	59	1	2
Infraserv GmbH & Co. Gendorf KG	50	50	34	32	5	1
Infraserv GmbH & Co. Knapsack KG	21	21	17	18	2	2
Infraserv GmbH & Co. Wiesbaden KG ²	8	23	0	20	2	6
Others	–	–	38	42	2	3
Total	–	–	226	312	26	29

¹ On 30 September 2004 Clariant sold the shareholdings in SF-Chem AG.

² The participation in Infraserv GmbH & Co. Wiesbaden KG was reduced from 23% to 8% as part of the sale of the Electronic Materials business to Carlyle. As a consequence, the remaining participation was reclassified to financial and other long-term assets.

More information on the sale of discontinuing operations, subsidiaries and associated companies is given in Notes 20 and 21.

5. Financial and other long-term assets

CHF mn	31.12.2004	31.12.2003
Prepaid pensions	49	105
Vendor loan note	41	0
Other investments	6	2
Total	96	107

The prepaid pensions are reported by subsidiaries in Switzerland and the UK. The vendor loan note was accepted as part of the payment for the disposal of Electronic Materials.

6. Taxes

CHF mn	2004	2003
Current income taxes	- 139	- 221
Deferred income taxes	- 1	110
Total	- 140	- 111

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

	2004		2003 ²	
	CHF mn	%	CHF mn	%
Income before taxes and minority interests	297		284	
Expected tax expense/rate¹	- 96	32.3	- 92	32.4
Effect of taxes on items not tax-deductible	- 46	15.5	- 34	12.0
Effect of utilization and changes in recognition of tax losses and tax credits	15	- 5.1	38	- 13.4
Effect of tax losses and tax credits of current year not recognized	- 4	1.3	- 116	40.8
Effect of adjustments to current taxes due to prior periods	- 7	2.4	2	- 0.7
Effect of tax exempt income	14	- 4.7	82	- 28.9
Effect of other items	- 16	5.4	9	- 3.2
Effective tax expense/rate	- 140	47.1	- 111	39.0

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

² Restated to be compliant with the new structure of disclosure.

CHF mn	31.12.2004	31.12.2003
Deferred tax liabilities on: Tangible and intangible assets	318	279
Prepaid pensions, other accruals and provisions	55	105
Total deferred tax liabilities	373	384
Deferred tax assets on: Tangible and intangible assets	63	33
Employee benefit liabilities	83	61
Tax losses carried forward and tax credits	45	25
Other accruals and provisions	88	172
Total deferred tax assets	279	291

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 5 056 million at 31 December 2004 (CHF 5 026 million at 31 December 2003).

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

CHF mn	31.12.2004	31.12.2003
Expiry by:		
2004	0	14
2005	34	22
2006	32	16
2007	31	105
2008	930	1 303
after 2008	1 289	1 165
Total	2 316	2 625

CHF mn	31.12.2004	31.12.2003
Unrecognized tax credits	3	4

The tax credits expire between 2005 and 2010.

7. Inventories

CHF mn	31.12.2004	31.12.2003
Raw material, consumables, work in progress	522	617
Finished products	803	952
Total	1 325	1 569

Finished products are valued at the lower of cost or net realizable value. Clariant does not pledge inventories as security for liabilities.

8. Trade accounts receivable

CHF mn	31.12.2004	31.12.2003
Receivables gross	1 198	1 332
Allowance for doubtful receivables	- 65	- 73
Total net	1 133	1 259

11. Changes in share capital and treasury shares

Registered shares (each with a par value of CHF 5)	Number of shares	Par value	Number of shares	Par value
	2004	2004	2003	2003
		CHF mn		CHF mn
At 1 January	153 440 000	767	153 440 000	767
Issuance of share capital	76 720 000	384		
At 31 December	230 160 000	1 151	153 440 000	767
Treasury shares	- 3 122 401	- 16	- 3 532 869	- 18
Outstanding capital at 31 December	227 037 599	1 135	149 907 131	749

Treasury shares (number of shares)	2004	2003
Holdings at 1 January	3 532 869	3 787 828
Shares purchased at fair market value	721 642	0
Shares sold at fair market value	- 800 000	0
Shares sold to employees	- 332 110	- 254 959
Holdings at 31 December	3 122 401	3 532 869

All shares are duly authorized and fully paid in.

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

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

9. Other short-term assets

CHF mn	31.12.2004	31.12.2003
Other receivables	226	230
Short-term financial assets	158	39
Prepaid expenses/accrued income	40	40
Total	424	309

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

Short-term financial assets include deposits with a term exceeding 90 days, securities and loans to third parties.

10. Cash and cash equivalents

CHF mn	31.12.2004	31.12.2003
Cash at bank and on hand	306	560
Short-term bank deposits	1 171	369
Total	1 477	929

12. Long-term financial debts

CHF mn	Interest rate	Term	Original amount	Repurchased	Net amount 31.12.2004	Net amount 31.12.2003
Straight bonds	4.125	1996–2006	200	- 46	154	154
Straight bonds	3.375	1997–2004	300	- 300	0	250
Straight bonds	3.750	1997–2007	200	- 25	175	175
Straight bonds	3.000	1998–2005	250	- 49	201	201
Straight bonds	4.250	2000–2008	500	- 116	384	384
Total straight bonds			1 450	- 536	914	1 164
Liabilities to banks and other financial institutions¹					1 424	1 710
Obligations under finance leases					7	2
Subtotal					2 345	2 876
Less current portion					- 622	- 256
Total					1 723	2 620
Breakdown by maturity				2005		687
				2006	345	548
				2007	644	641
				2008	555	563
				2009	171	181
				thereafter	8	
Total					1 723	2 620
Breakdown by currency				CHF	793	1 615
				EUR	287	286
				USD	0	274
				JPY	603	430
				other	40	15
Total					1 723	2 620
Fair value comparison						
Straight bonds					950	1 154
Others					1 507	2 036
Total					2 457	3 190
Total net book value of tangible fixed assets pledged as collateral for long-term financial debts					66	101
Total collateralized long-term financial debts					28	28

¹ Average interest rate in 2004: 4.7% (2003: 4.5%).

In 2004, bonds in the amount of 250 million were paid back on expiry in order to reduce financial debt (CHF 135 million in 2003).

Covenants. Clariant Ltd is the borrower under some covenants and it guarantees all obligations under the syndicated bank facilities. The facilities rank pari passu with all other unsubordinated third-party debt.

The facilities contain customary covenants that restrict the sale of assets, mergers, liens, sale-leaseback transactions, acquisitions and investments, and require the Group to maintain specified gearing and debt interest cover ratios. These ratios are tested at the end of each financial half-year. The facilities do 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 rate of all bonds are fixed.
- Liabilities to banks and other financial institutions: Mostly consisting of syndicated bank loans with fixed interest rates (LIBOR plus applicable margin according to a defined pricing grid based on the Group's performance).
- Other financial debt: Mostly short-term debt at variable interest rates.

13. 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 long-term employee benefit obligations. In these cases the related liability is included in the balance sheet.

Net liabilities recognized in the balance sheet:

CHF mn	31.12.2004	31.12.2003
Pension funds defined benefit plans	- 348	- 359
Prepaid pensions recognized in financial and other long-term assets	49	105
Pension funds net liability for defined benefit plans	- 299	- 254
Other post-retirement benefit plans	- 103	- 110
Pension funds defined contribution plans	- 28	- 29
Net liabilities recognized in the balance sheet	- 430	- 393

Defined contribution pension and termination plans. In 2004, CHF 34 million were charged to the income statements of the Group companies as contributions to these plans (2003: CHF 34 million).

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

CHF mn	31.12.2004	31.12.2003
Present value of funded obligations	- 1 475	- 1 420
Fair value of plan assets	1 310	1 243
Deficit	- 165	- 177
Present value of unfunded obligations	- 353	- 344
Unrecognized actuarial losses	219	267
Net liabilities in the balance sheet	- 299	- 254

The net liability in the balance sheet consists of:

CHF mn	31.12.2004	31.12.2003
Accrued pension costs recognized in provisions for long-term liabilities	- 348	- 359
Prepaid pension expenses included in financial and other long-term assets	49	105
Net liabilities in the balance sheet	- 299	- 254

The pension plan assets include registered shares issued by the company with a fair value of CHF 124 000 at 31 December 2004 (2003: CHF 68 000). The amounts recognized in the income statement are as follows:

CHF mn	2004	2003
Current service cost	- 61	- 73
Interest cost	- 85	- 81
Expected return on plan assets	67	62
Net actuarial losses recognized in current year	- 13	- 26
Termination benefits	- 30	0
Effect of curtailments and settlements	- 9	- 8
Total expenses	- 131	- 126

The actual return on plan assets in the 12 months was CHF 98 million (2003: CHF 122 million).

Termination benefits mainly concern the costs for staff reduction in Switzerland which is executed through the Swiss pension fund. The costs are included in Restructuring and impairment in the income statement and are also disclosed under Leaving indemnities in Note 24.

Movements in the net liabilities recognized in the balance sheet:

CHF mn	2004	2003
At 1 January	- 254	- 194
Translation effect	4	- 16
Reduction in obligations due to divestitures	14	10
Total expenses as above	- 131	- 126
Contributions paid	61	63
Effect of curtailments and settlements	7	9
At 31 December	- 299	- 254

The principal actuarial assumptions used for accounting purposes were:

Weighted average %	2004	2003
Discount rate	4.6	5.3
Expected return on plan assets	5.3	5.4
Expected inflation rate	2.8	3.0

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

CHF mn	31.12.2004	31.12.2003
Present value of unfunded obligations	- 86	- 113
Unrecognized actuarial losses	3	3
Unrecognized past service costs	- 20	0
Liabilities in the balance sheet	- 103	- 110

The amounts recognized in the income statement are as follows:

CHF mn	2004	2003
Current service cost	- 2	- 3
Interest cost	- 6	- 7
Net actuarial gain recognized in current year	0	1
Past service cost recognized in current year	2	0
Total included in personnel costs	- 6	- 9

Movements in the liabilities recognized in the balance sheet:

CHF mn	2004	2003
At 1 January	- 110	- 113
Translation effect	9	10
Total expenses as above	- 6	- 9
Benefits paid	3	2
Effect of curtailments and settlements	1	0
At 31 December	- 103	- 110

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long-term increase in health costs of 9.4% per year (2003: 10.0%).

14. Movements in provisions for long-term liabilities

CHF mn	Provisions for pension plans and other post-employment benefits	Environmental provisions	Long-term personnel provisions	Other long-term provisions	Total provisions for long-term liabilities 2004	Total provisions for long-term liabilities 2003
At 1 January	498	218	125	52	893	882
Additions	49	17	21	19	106	200
Amounts used	- 48	- 16	- 25	- 31	- 120	- 165
Unused amounts reversed	- 14	- 9	- 2	- 4	- 29	- 46
Changes due to the passage of time and changes in discount rates	7	1	2	0	10	12
Translation effects	- 13	- 7	- 5	2	- 23	10
At 31 December	479	204	116	38	837	893
Debts falling due						
Between 1 and 3 years	43	28	29	8	108	117
Between 3 and 5 years	56	9	59	6	130	165
Over 5 years	380	167	28	24	599	611
At 31 December	479	204	116	38	837	893

Provisions for pension plans and other post-employment benefits. Provisions for pension plans relate to defined benefit plans, defined contribution plans and post-employment medical plans in which many of the Group's subsidiaries participate. Major defined benefit plans are maintained in Switzerland, the USA, Germany, Japan, and the UK. Post-employment medical plans are maintained in the USA, Canada and France. Most subsidiaries also have defined contribution plans. See Note 13 of the Consolidated Financial Statements for further information on the Group's employee benefit plans.

Environmental provisions. Provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group, which will result in an outflow of economic resources. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of the cost to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which

include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties. The environmental provisions reported in the balance sheet concern a number of different obligations, mainly in Switzerland, the USA, Germany, the UK, 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.

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

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

15. Trade and other accounts payable

CHF mn	31.12.2004	31.12.2003
Trade payables	646	632
Accruals	353	330
Other payables	166	186
Total	1 165	1 148

16. Short-term financial debts

CHF mn	31.12.2004	31.12.2003
Banks and other financial institutions (including employees' accounts)	309	958
Current portion of long-term financial debts	622	256
Total	931	1 214

17. Movements in provisions for short-term liabilities

CHF mn	Restructuring provisions	Short-term personnel provisions	Other short-term provisions	Total provisions for short-term liabilities 2004	Total provisions for short-term liabilities 2003
At 1 January	45	129	189	363	460
Additions and reclassifications	56	119	137	312	317
Amounts used	- 40	- 119	- 125	- 284	- 376
Unused amounts reversed	- 1	- 13	- 19	- 33	- 43
Translation effects	0	- 2	9	7	5
At 31 December	60	114	191	365	363

Restructuring provisions. Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources and which is expected to occur within the next twelve months. The term restructuring refers to activities that have as a consequence, staff redundancies and the shut-down of production lines or entire sites. However, expenses for termination benefits which are borne by the pension and termination plans are included in pension plan liabilities (see Note 13).

Short-term personnel provisions. Liabilities from personnel costs include holiday entitlements, compensated absences such as annual leave, profit sharing and bonuses payable within twelve months, and nonmonetary benefits such as medical care, housing, and cars for current employees payable within twelve months, for which no invoice has been received.

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

18. Regional breakdown of key figures 2004 and 2003

Region	Sales ¹		Operating income ²		Number of employees at 31 December	
	2004	2003	2004	2003	2004	2003
CHF mn						
Continuing operations						
Europe	4 154	3 963	206	438	13 595	14 363
<i>thereof in Germany</i>	1 244	1 138	97	279	7 027	7 203
The Americas	2 191	2 108	181	- 62	5 651	5 844
<i>thereof in the USA</i>	1 107	1 131	27	- 152	2 051	2 186
Asia/Africa/Australia	1 799	1 722	101	97	5 523	6 179
Total continuing operations	8 144	7 793	488	473	24 769	26 386
Discontinuing operations						
Europe	60	276	- 14	31		185
<i>thereof in Germany</i>	40	108	- 4	31		154
The Americas	66	105	3	- 2		183
<i>thereof in the USA</i>	65	100	3	- 2		181
Asia/Africa/Australia	260	342	53	57		254
Total discontinuing operations	386	723	42	86		622
Total Group	8 530	8 516	530	559	24 769	27 008

Region	Investments in tangible fixed assets		Depreciation of tangible fixed assets		Net operating assets at 31 December ³	
	2004	2003	2004	2003	2004	2003
CHF mn						
Continuing operations						
Europe	179	191	234	281	2 013	2 465
<i>thereof in Germany</i>	110	105	113	165	580	794
The Americas	45	53	60	165	636	623
<i>thereof in the USA</i>	16	26	37	146	211	227
Asia/Africa/Australia	39	30	31	31	699	759
Total continuing operations	263	274	325	477	3 348	3 847
Discontinuing operations						
Europe	3	10	3	21		50
<i>thereof in Germany</i>	3	9	2	20		39
The Americas	15	4	8	11		86
<i>thereof in the USA</i>	15	4	8	11		86
Asia/Africa/Australia	8	13	9	11		162
Total discontinuing operations	26	27	20	43		298
Total Group	289	301	345	520	3 348	4 145

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

² Allocated by region of production and selling entity.

³ Long-term and short-term assets (excluding cash and cash equivalents) less non-interest-bearing liabilities.

19. Divisional breakdown of key figures

In August 2003, Clariant announced its intention to sell the activities of

Cellulose Ethers, part of the Functional Chemicals Division, and Electronic Materials, part of the Life Science & Electronic Chemicals Division. At

Divisions continuing operations CHF mn	Textile, Leather & Paper Chemicals (TLP)		Pigments & Additives (PA)		Masterbatches (MB)	
	2004	2003	2004	2003	2004	2003
Divisional sales	2 239	2 203	1 902	1 814	1 110	1 043
Sales to other divisions	- 36	- 24	- 74	- 69	- 2	- 2
Total sales	2 203	2 179	1 828	1 745	1 108	1 041
Operating expenses	- 2 046	- 2 015	- 1 642	- 1 599	- 1 006	- 955
Income from associated companies	1	4	17	18	1	0
Gain from the sale of discontinuing operations, subsidiaries and associated companies	- 25	8	- 1	0	0	0
Restructuring and impairment	- 48	- 27	- 35	- 8	- 8	- 2
Amortization of goodwill	- 22	- 22	- 5	- 5	- 3	- 4
Operating income	63	127	162	151	92	80
Finance costs-net						
Income before taxes and minority interests						
Taxes						
Income before minority interests						
Minority interests						
Net income						
Total assets	1 777	2 013	1 613	1 684	561	573
Liabilities	- 166	- 159	- 157	- 156	- 76	- 68
Total equity and minority interests	1 611	1 854	1 456	1 528	485	505
Net debt ³	0	0	0	0	0	0
Total net operating assets¹	1 611	1 854	1 456	1 528	485	505
Thereof:						
Investments in tangible fixed assets for the period	56	63	72	63	35	35
Investments in associated companies	6	61	169	176	3	4
Operating income	63	127	162	151	92	80
Add: Systematic depreciation of tangible fixed assets	75	75	75	72	28	28
Add: Impairment depreciation of tangible fixed assets	8	11	8	7	1	0
Add: Amortization of goodwill	22	22	5	5	3	4
Add: Amortization of other intangibles	0	0	0	0	1	0
EBITDA²	168	235	250	235	125	112
Add: Restructuring and impairment	48	27	35	8	8	2
Less: Depreciation of tangible fixed assets (Reported under restructuring and impairment)	- 8	- 11	- 8	- 7	- 1	0
Less: Gain/loss from the sale of discontinuing operations, subsidiaries and associated companies	25	- 8	1	0	0	0
EBITDA before restructuring and disposals	233	243	278	236	132	114
Operating income	63	127	162	151	92	80
Add: Restructuring and impairment	48	27	35	8	8	2
Less: Gain/loss from the sale of discontinuing operations, subsidiaries and associated companies	25	- 8	1	0	0	0
Add: Amortization of goodwill	22	22	5	5	3	4
Operating income before restructuring and disposals and amortization of goodwill	158	168	203	164	103	86

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

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

Calculation of net debt CHF mn	2004	2003
	Long-term financial debt	1 723
Add: Short-term financial debt	931	1 214
Less: Cash and cash equivalents	- 1 477	- 929
Less: Short-term deposits 90 to 365 days	- 87	0
Net debt	1 090	2 905

the end of 2003 Cellulose Ethers was sold, while Electronic Materials was sold on 30 September 2004. As a consequence, discontinuing activ-

ities comprise Cellulose Ethers and Electronic Materials for 2003 and Electronic Materials only for 2004.

Functional Chemicals (FUN)		Life Science & Electronic Chemicals (LSE)		Total divisions continuing operations		Corporate		Total continuing operations		Discontinuing operations		Total Group	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
2 034	1 807	1 101	1 193	8 386	8 060	0	0	8 386	8 060	386	723	8 772	8 783
- 57	- 55	- 73	- 117	- 242	- 267	0	0	- 242	- 267	0	0	- 242	- 267
1 977	1 752	1 028	1 076	8 144	7 793	0	0	8 144	7 793	386	723	8 530	8 516
- 1 758	- 1 569	- 1 007	- 1 097	- 7 459	- 7 235	- 120	- 60	- 7 579	- 7 295	- 344	- 639	- 7 923	- 7 934
5	5	0	0	24	27	2	0	26	27	0	2	26	29
6	238	83	- 7	63	239	0	0	63	239	0	0	63	239
- 10	- 155	- 11	- 63	- 112	- 255	- 24	- 5	- 136	- 260	0	0	- 136	- 260
0	0	0	0	- 30	- 31			- 30	- 31	0	0	- 30	- 31
220	271	93	- 91	630	538	- 142	- 65	488	473	42	86	530	559
								- 233	- 274	0	- 1	- 233	- 275
								255	199	42	85	297	284
								- 133	- 78	- 7	- 33	- 140	- 111
								122	121	35	52	157	173
								- 7	- 12			- 7	- 12
								115	109	35	52	150	161
906	903	835	983	5 692	6 156	2 113	1 443	7 805	7 599	0	404	7 805	8 003
- 147	- 116	- 84	- 89	- 630	- 588	- 4 917	- 6 069	- 5 547	- 6 657	0	- 106	- 5 547	- 6 763
759	787	751	894	5 062	5 568	- 2 804	- 4 626	2 258	942	0	298	2 258	1 240
0	0	0	0	0	0	1 090	2 905	1 090	2 905		0	1 090	2 905
759	787	751	894	5 062	5 568	- 1 714	- 1 721	3 348	3 847	0	298	3 348	4 145
42	51	35	40	240	252	23	22	263	274	26	27	289	301
35	45	2	2	215	288	11	12	226	300	0	12	226	312
220	271	93	- 91	630	538	- 142	- 65	488	473	42	86	530	559
49	56	54	77	281	308	5	3	286	311	20	43	306	354
7	101	15	47	39	166	0	0	39	166	0	0	39	166
0	0	0	0	30	31	0	0	30	31	0	0	30	31
0	0	0	0	1	0	7	6	8	6	2	3	10	9
276	428	162	33	981	1 043	- 130	- 56	851	987	64	132	915	1 119
10	155	11	63	112	255	24	5	136	260	0	0	136	260
- 7	- 101	- 15	- 47	- 39	- 166	0	0	- 39	- 166	0	0	- 39	- 166
- 6	- 238	- 83	7	- 63	- 239	0	0	- 63	- 239	0	0	- 63	- 239
273	244	75	56	991	893	- 106	- 51	885	842	64	132	949	974
220	271	93	- 91	630	538	- 142	- 65	488	473	42	86	530	559
10	155	11	63	112	255	24	5	136	260	0	0	136	260
- 6	- 238	- 83	7	- 63	- 239	0	0	- 63	- 239	0	0	- 63	- 239
		0	0	30	31	0	0	30	31	0	0	30	31
224	188	21	- 21	709	585	- 118	- 60	591	525	42	86	633	611

20. Discontinuing operations

In August 2003 Clariant announced its intention to sell the activities of Cellulose Ethers, part of the Functional Chemicals Division, and Electronic Materials, part of the Life Science & Electronic Chemicals Division. Both activities were subsequently reported as discontinuing activities.

Electronic Materials. On 30 September 2004 Clariant sold the Electronic Materials business, belonging to the Life Science & Electronic Chemicals Division, to The Carlyle Group. Prior to the disposal, Clariant acquired the minority shares of the Korean subsidiary Clariant Industries (Korea) Ltd for a total consideration of CHF 24 million generating a goodwill of CHF 17 million. Clariant Industries (Korea) Ltd was subsequently sold as part of the disposal of Electronic Materials.

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

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

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

Cellulose Ethers. In December 2003 Clariant sold the operations of Cellulose Ethers, belonging to the Functional Chemicals Division, to the Shin-Etsu Group. The transaction comprised production facilities in Germany and net current assets and distribution networks in several other European countries, in the USA and in Asia. In a number of countries Clariant has entered into sales and distribution agreements with Shin-Etsu, based on which Clariant continues to serve the cellulose ether market as a service partner to Shin-Etsu.

CHF mn	Electronic Materials		Cellulose Ethers		Total discontinuing operations	
	2004	2003	2004	2003	2004	2003
Sales	386	442		281	386	723
Operating expenses	- 344	- 401		- 236	- 344	- 637
Operating income	42	41	-	45	42	86
Financial result	0	- 1		0	0	- 1
Income before taxes	42	40	-	45	42	85
Taxes	- 7	- 20		- 13	- 7	- 33
Income after taxes	35	20	-	32	35	52
Cash flows of discontinuing operations						
Operating cash flows	21	47		42	21	89
Investing cash flows	- 26	- 21		- 3	- 26	- 24
Financing cash flows	- 4	5		0	- 4	5
Total cash flows	- 9	31	-	39	- 9	70
Net assets of discontinuing operations						
Tangible fixed assets	195	184		67	195	251
Investments in associated companies	24	12		16	24	28
Goodwill	17	0		0	17	0
Other intangibles	12	13		0	12	13
Short-term assets	161	195		100	161	295
Total assets	409	404	-	183	409	587
Total liabilities	- 121	- 106		- 59	- 121	- 165
Net assets¹	288	298	-	124	288	422
Number of employees	543	622		500	543	1 122

¹ Net assets transferred at the date of the disposals.

21. Disposal of discontinuing operations, subsidiaries and associated companies

In addition to the disposal of the discontinuing operation, Electronic Materials, there were various other disposals of subsidiaries and associated companies in 2004:

On 30 September 2004, the activities of Lancaster Synthesis Ltd in the UK and the US, belonging to the former Life Science & Electronic Chemicals Division, were sold.

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

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

On 31 December 2003, the Cellulose Ethers activities belonging to the Functional Chemicals Division were sold. An additional gain of CHF 6 million resulted from the final settlement of this transaction in 2004.

The exchange rate variances recycled are included in the finance costs net in the income statement.

Net income and cash flow from the disposal of discontinuing operations, subsidiaries and associated companies	Disposals during 2004					Total 2004	Total 2003
	Electronic Materials	SF-Chem	Lancaster	Clariant Polymers	Other		
CHF mn							
Consideration for sale	394	22	4	26	10	456	387
Net assets sold including disposal-related expenses	- 305	- 54	- 10	- 20	- 4	- 393	- 148
Gain on disposals before exchange rate variances recycled and tax expense	89	- 32	- 6	6	6	63	239
Exchange rate variances recycled	- 26	0	0	0	0	- 26	
Tax expense	- 21	0	0	- 2	0	- 23	- 25
After tax gain on disposal	42	- 32	- 6	4	6	14	214
The net cash inflow from sale is determined as follows:							
Total consideration for sale	394	22	4	26	10	456	387
Less: Vendor loan note and deferred payments	- 57	0	0	0	0	- 57	0
Less: Cash and cash equivalents in subsidiary sold	- 12	0	0	- 2	0	- 14	- 16
Net cash inflow from sale	325	22	4	24	10	385	371

22. Finance costs-net

CHF mn	2004	2003
Financial income		
Interest income	25	19
Fair value gains on financial instruments: Interest rate swaps, fair value hedges	0	1
Other financial income	9	6
Total financial income	34	26
Financial expenses		
Interest expense	- 161	- 164
Foreign exchange forward contracts and currency swaps: Transactions classified as trading activities	0	- 2
Other financial expenses	- 31	- 40
Total financial expenses	- 192	- 206
Currency result, net	- 75	- 95
Total	- 233	- 275

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

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

23. 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).

	2004	2003 ¹
Net income (CHF mn)	150	161
Diluted net income (CHF mn)	150	161
Shares		
Holdings on 1 January ¹	172 842 922	172 548 954
Effect of the issuance of share capital and transactions with treasury shares on weighted average number of shares outstanding	38 023 015	197 082
Weighted average number of shares outstanding	210 865 937	172 746 036
Adjustment for granted Clariant shares	1 455 150	1 350 847
Adjustment for dilutive share options	37 463	0
Weighted average diluted number of shares outstanding	212 358 550	174 096 883
Basic earnings per share (CHF/share)	0.71	0.93
Diluted earnings per share (CHF/share)	0.71	0.93

¹ Restated for impact of capital increase (adjustment factor 1.15).

Earnings per share have been calculated using the adjustment factor of 1.15 to determine the average number of shares outstanding for 2003 and from 1 January to 20 April 2004 (date of issuance of share capital in the form of a rights issue).

24. Restructuring and impairment

In order to increase profitability over a sustained period, Clariant has launched a broad initiative designed to improve its performance. The aim of the program is to increase the Group's operating result and reduce net working capital. The changes that need to be made to the processes and structures in order to achieve these aims, will result in the loss of around 4 000 jobs across the Group between 2004 and 2006.

Restructuring. As part of the performance improvement program, in 2004 staff have been reduced and sites have been closed mainly in Switzerland, Germany and the UK. The costs for the dismissal of personnel in these places has been recorded as restructuring costs.

Impairment. As a result of the performance improvement program and the resulting staff reduction, tangible fixed assets and other long-term assets were reviewed for impairment in value. In numerous cases it was evident that such assets were impaired, as they would no longer be utilized, and as a consequence they were written off. In Oswaldtwistle, UK, a plant pertaining to the Functional Chemicals Division was restructured, entailing the write-off of fixed assets in the amount of CHF 7 million. In Beverly, UK, a plant pertaining to the Textile, Leather & Paper Chemicals Division was closed, resulting in fixed assets being written off in the amount of CHF 8 million. In Knapsack, Germany, a plant pertaining to the Pigments & Additives Division was closed, resulting in a write-off of fixed assets in the amount of CHF 7 million.

CHF mn	TLP		PA		MB	
	2004	2003	2004	2003	2004	2003
Cash out expenses for restructuring	6	0	2	- 2	3	1
Noncash expenses for						
Leaving indemnity	31	10	12	0	2	0
Others	3	6	13	3	2	1
Total noncash expenses for restructuring	34	16	25	3	4	1
Total restructuring expenses	40	16	27	1	7	2
Impairment of tangible fixed assets						
Land and buildings	0	4	2	4	0	0
Machinery and equipment	8	7	6	3	1	0
Total impairment of tangible fixed assets	8	11	8	7	1	0
Total restructuring and impairment	48	27	35	8	8	2
Thereof noncash expenses	42	27	33	10	5	1

Clariant also assessed the recoverability of the carrying amount of long-term assets of several cash generating units in 2004. For this purpose, assets were grouped at the lowest level 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 net selling price and value in use. As a result of this procedure, Clariant depreciated for impairment the fixed assets of the business unit Pharma, belonging to the Life Science & Electronic Chemicals Division, by an amount of CHF 12 million. The asset values

reported for this segment represent the value in use. The discount rate, which was applied to determine the value in use (pretax weighted average cost of capital) amounted to 10%.

In 2003 Clariant had to close a factory belonging to the Functional Chemicals Division in the United States, which led to expenses of CHF 155 million, of which CHF 101 million were for the impairment devaluation of long-term assets.

	FUN		LSE		Total divisions		Corporate		Total continuing operations		Discontinuing operations		Total Group	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	0	19	1	1	12	19	20	2	32	21	0	0	32	21
	2	1	8	11	55	22	0	3	55	25	0	0	55	25
	1	34	- 13	4	6	48	4	0	10	48	0	0	10	48
	3	35	- 5	15	61	70	4	3	65	73	0	0	65	73
	3	54	- 4	16	73	89	24	5	97	94	0	0	97	94
	1	0	14	58	17	66	0	0	17	66	0	0	17	66
	6	101	1	- 11	22	100	0	0	22	100	0	0	22	100
	7	101	15	47	39	166	0	0	39	166	0	0	39	166
	10	155	11	63	112	255	24	5	136	260	0	0	136	260
	10	136	10	62	100	236	4	3	104	239	0	0	104	239

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

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

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

The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent the amount at risk. The fair values represent market values or standard pricing models at 31 December 2004 and 2003, respectively.

Financial instruments CHF mn	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2004	2003	2004	2003	2004	2003
Currency-related hedging instruments						
Forward foreign exchange rate contracts and cross-currency swaps	631	515	3	5	- 52	- 30
Total financial instruments	631	515	3	5	- 52	- 30

Financial instruments by maturity CHF mn	1–12 months		1–5 years		Over 5 years		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Currency-related hedging instruments								
Forward foreign exchange rate contracts and cross-currency swaps	329	118	302	318		79	631	515
Total financial instruments	329	118	302	318	0	79	631	515

Financial instruments by currency	2004	2003
Forward foreign exchange rate contracts and cross-currency swaps		
CHF mn		
JPY	377	396
USD	250	118
EUR	3	0
Other	1	1
Total financial instruments	631	515

All counterparties are at least A-rated.

Financial instruments effective for hedge-accounting purposes	2004	2003
CHF mn		
Fair value of cash flow hedges		
Contracts with positive fair values	0	0
Contracts with negative fair values		
Cross-currency swaps	- 49	- 30
Fair value of hedges of net investments in foreign entities		
Contracts with positive fair values	0	0
Contracts with negative fair values		
Borrowings denominated in foreign currencies	- 527	- 748

The cross-currency swaps designated as cash flow hedges concern the hedge of a loan denominated in Japanese yen. The payback will take

place in five equal installments in the years between 2005 and 2009, with each installment amounting to JPY 6.8 billion.

Volumes of securitization of trade receivables	2004	2003
CHF mn		
Trade receivables denominated in euros	156	169
Trade receivables denominated in US dollars	85	94
Total	241	263

Securitization. For a number of years Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in ABS programs and as a consequence are derecognized from the balance sheet.

26. Employee participation plans

I. Executive Stock Option Plan, "ESOP." In 1999, a new Clariant Group Executive Stock Option Plan was introduced. Under this plan, a specific group of executives are granted, as part of their annual remuneration, the choice of either:

a Options

The granted options entitle the holder to acquire registered shares of Clariant Ltd (1 share per option) at a predetermined strike price. They become vested and are exercisable after 3 years and expire after 10 years.

b Shares

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

II. Management Stock Incentive Plan "MSIP." In 1999, a Clariant Group Management Stock Incentive plan was introduced. Under this plan, a specific group of managers are granted, as part of their annual remuneration, registered shares in Clariant Ltd. The shares become vested after 3 years.

The number of options and shares granted in both plans depend on the performance of the individuals and on the performance of the sector in which they work.

The Clariant employee share participation foundation has not been included in the consolidated financial statements under IFRS as interpretation No.12 of the Standing Interpretation Committee exempts post-employment and equity plans from its scope.

The foundation holds 294 784 of Clariant shares as at 31 December 2004 (2003: 226 880). The fair value of these shares amounts to CHF 5.4 million (2003: CHF 4.1 million).

The cost for the grant of shares (I b) is recorded as an expense in the income statement under the corresponding functions of the related employees.

The grant of options (I a) has no effect on the income statement.

The options granted in 1998 will be covered entirely by the employee share participation foundation.

Options for Board of Directors (nonexecutive members) as at 31 December 2004

Base year	Granted	Exercisable from	Expiry date	Exercise price ³	Share price at grant date ⁴	Number 31.12.2004 ⁵	Number 31.12.2003
1998	1998	2001	2008	53.80	56.76	10 137 ²	9 200 ²
1999	1999	2002	2009	61.80	60.76	10 418 ²	5 530 ²
2000	2000	2003	2010	48.00	47.97	6 229 ²	5 530 ²
Total						26 784	20 260

Options for executive members of management (Board of Management) as at 31 December 2004

Base year	Granted	Exercisable from	Expiry date	Exercise price ³	Share price at grant date ⁴	Number 31.12.2004 ⁵	Number 31.12.2003
1997	1998	2001	2008	25.50	68.97	127 783 ¹	81 780 ¹
1997	1998	2001	2008	37.50	73.06	167 001 ¹	145 100 ¹
1998	1999	2002	2009	61.80	62.09	358 789 ²	302 210 ²
1999	2000	2003	2010	48.00	47.97	106 191 ²	94 290 ²
2000	2001	2004	2011	41.80	42.02	7 229 ²	6 420 ²
2001	2002	2005	2012	27.20	26.87	166 354 ²	147 732 ²
2002	2003	2006	2013	14.80	14.88	169 136 ²	150 206 ²
2003	2004	2007	2014	12.00	18.74	49 326 ²	0 ²
2003	2004	2007	2014	16.30	18.74	60 391 ²	0 ²
Total						1 212 200	927 738

¹ The corresponding number of shares is held by the employee share participation foundation.

² The corresponding number of registered shares is held as treasury shares of Clariant Ltd.

³ As a result of the capital increase in April 2004, the strike price of all options issued before April 2004 was modified by the adjustment factor of 0.8883.

⁴ As a result of the capital increase in April 2004, the grant price of all options and shares granted before April 2004 was modified by the adjustment factor of 0.8883.

⁵ In order to accommodate the dilution of the capital increase in April 2004, all members of the employee participation plans received additional shares/options for the ones granted prior to April 2004.

Shares for Board of Directors (nonexecutive members) as at 31 December 2004					
Base year	Granted	Exercisable from	Share price at grant date ⁴	Number 31.12.2004 ⁵	Number 31.12.2003
2001	2001	2004	42.02	0	3 420
2002	2002	2005	26.87	6 227	8 824
2003	2003	2006	14.88	15 863	18 979
2004	2004	2007	18.74	16 565	0
Total				38 655	31 223

Shares for members of management as at 31 December 2004					
Base year	Granted	Exercisable from	Share price at grant date ⁴	Number 31.12.2004 ⁵	Number 31.12.2003
2000	2001	2004	42.02	250	265 910
2001	2002	2005	26.87	294 794	294 351
2002	2003	2006	14.88	751 433	759 363
2003	2004	2007	18.74	370 018	0
Total				1 416 495	1 319 624

	Options 2004	Shares 2004	Options 2003	Shares 2003
Shares/options outstanding at 1 January	947 998	1 350 847	810 313	658 302
Granted (incl. adjustment due to rights issue)	290 986	542 831	150 206	821 227
Exercised/distributed	0	- 420 605	0	- 117 336
Cancelled	0	- 17 923	- 12 521	- 11 346
Outstanding at 31 December	1 238 984	1 455 150	947 998	1 350 847
Exercisable at 31 December	793 777	250	643 640	0
Fair value of shares/options in CHF	3 289 750	26 702 003	4 467 420	24 656 281

27. Personnel expenses

CHF mn	2004	2003
Wages and salaries	- 1 528	- 1 534
Pension and social security costs	- 451	- 475
Total	- 1 979	- 2 009

28. Related-party transactions

Clariant maintains business relationships with mainly two groups of related parties. One group consists of the associated companies, where the most important ones are described in Note 4. The most important business with these companies is the purchase of services by Clariant (e.g. energy, rental of land and buildings) in Germany. In addition to this, Clariant exchanges services and goods with parties which are associated companies, i.e. in which Clariant holds a stake of between 20% and 50%. The pricing of all exchanges of goods and services with these parties is at arm's length.

The second group of related parties include the Board of Directors (nonexecutive members) and Board of Management. More information on the relationship with the Board of Directors is given in the chapter Corporate governance.

Income and expenses	2004	2003
CHF mn		
Income from the sale of goods to related parties	49	39
Income from the rendering of services to related parties	21	20
Expenses from the purchase of goods from related parties	- 17	- 26
Expenses from services rendered by related parties	- 378	- 435
Payables, receivables and loans	31.12.2004	31.12.2003
Receivables from related parties	11	8
Payables to related parties	40	53
Loans to related parties	1	0

Transactions with Board of Management	2004	2003
CHF mn		
Salaries and other short-term benefits	4	6
Termination benefits	4	8
Post-employment benefits	1	2
Share based payments	1	1
Total	10	17
Number of granted shares	33 347	42 973
Number of granted options	49 326	41 370

Transactions with Board of Directors (nonexecutive members)	2004	2003
CHF thousand		
Cash compensations	600	400
Total	600	400
Number of allocated shares	18 406	18 979

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

29. Commitments and contingencies

Leasing commitments. Commitments arising from fixed-term operational leases mainly from Infraser companies at 31 December are as follows:

CHF mn	2004	2003
2004		90
2005	75	75
2006	57	55
2007	46	47
2008	40	46
2009	32	
thereafter	39	67
Total	289	380
Guarantees in favor of third parties	31	76

Expenses for operating leases were CHF 95 million in 2004 and CHF 99 million in 2003.

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

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

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. At present, purchase commitments on such contracts amount to about CHF 85 million.

Environmental risk. Clariant is exposed to environmental liabilities and risks relating to its past operations, principally in respect of remediation costs. Provisions for nonrecurring 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.

30. Exchange rates of principal currencies

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

	31.12.2004	31.12.2003
1 USD	1.13	1.24
1 GBP	2.18	2.20
100 JPY	1.10	1.16
1 EUR	1.54	1.56

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

	2004	2003
1 USD	1.25	1.35
1 GBP	2.28	2.20
100 JPY	1.15	1.16
1 EUR	1.54	1.52

31. Important subsidiaries and associated companies

Country	Company name	Participation %	Holding/ Finance	Sales	Production	Research
Argentina	Clariant (Argentina) SA, Buenos Aires	100.0		■	■	
Australia	Clariant (Australia) Pty Ltd, Melbourne	100.0		■	■	
Austria	Clariant (Österreich) GmbH, Wien	100.0		■	■	
Bangladesh	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
Belgium	Clariant Benelux SA, Louvain-La-Neuve	100.0		■	■	■
Brazil	Clariant S.A., São Paulo and Resende	100.0		■	■	
Canada	Clariant (Canada) Inc., St.-Laurent, Québec	100.0		■	■	
Chile	Clariant Colorquimica (Chile) Ltda, Santiago de Chile	100.0		■	■	
China	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals Trading (Shanghai) Ltd, Shanghai	100.0		■		
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
	Tianjin Hua Shi Chemicals Co., Ltd, Tianjin	25.0		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Guangzhou Masterbatch Ltd, Guangzhou	90.0		■	■	
Colombia	Clariant (Colombia) SA, Santa Fé de Bogotá	100.0		■	■	
Czech Republic	Clariant CR s.r.o., Prague	100.0		■		
Denmark	Clariant (Denmark) A/S, Glostrup	100.0		■		
Ecuador	Clariant (Ecuador) S.A., Quito	100.0		■		
Egypt	Clariant (Egypt) SAE, Cairo	85.6		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
Finland	Clariant (Finland) Oy, Helsinki	100.0		■		
France	Clariant (France), Paris-La-Défense	100.0		■	■	■
	Clariant Huningue, Huningue	100.0		■	■	■
	Clariant Life Science Molecules (France) SAS, Paris-La-Défense	100.0		■	■	
Germany	Clariant (Deutschland) GmbH, Leinfelden-Echterdingen	100.0		■	■	■
	Clariant GmbH, Frankfurt	100.0		■	■	■
	Clariant Masterbatch GmbH & Co. OHG, Lahnstein	100.0		■	■	■
	Clariant Verwaltungsgesellschaft mbH, Leinfelden-Echterdingen	100.0	■			
Great Britain	Clariant Holdings UK Ltd, Horsforth/Leeds	100.0	■			
	Clariant UK Ltd, Horsforth/Leeds	100.0		■	■	■
Greece	Clariant (Hellas) SA, Lykovrisi	100.0		■	■	
Guatemala	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
Hungary	Clariant Hungaria Kft, Budapest	100.0		■		
India	BTP India Private Ltd, Chennai	100.0		■	■	■
	Clariant (India) Ltd, Mumbai	50.9		■	■	■
	Colour-Chem Ltd, Mumbai	50.1		■	■	■
Indonesia	PT Clariant Indonesia, Tangerang	100.0		■	■	
Ireland	Masterplast Ltd, Naas	100.0		■	■	

Country	Company name	Participation %	Holding/ Finance	Sales	Production	Research
Italy	Clariant (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Holding (Italia) S.p.A., Milan	100.0	■			
	Clariant Life Science Molecules (Italia) S.p.A., Origgio	100.0		■	■	■
Japan	Clariant (Japan) K.K., Tokyo	100.0		■	■	■
Korea	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Sang Ho Ltd, Yangsan-Si	64.7		■	■	
	Clariant Songwon Color Co. Ltd, Ulsan	99.8		■	■	
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		■		
Mexico	Clariant (Mexico) S.A. de C.V., Naucalpan de Juárez	100.0		■	■	
	Clariant Productos Químicos S.A. de C.V., Santa Clara	100.0			■	
Morocco	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
Netherlands	Dick Peters BV, Denekamp	100.0		■	■	
New Zealand	Clariant (New Zealand) Ltd, Takapuna-Auckland	100.0		■	■	
Norway	Clariant (Norge) AS, Bergen	100.0		■		
Pakistan	Clariant Pakistan Ltd, Korengi, Karachi	75.0		■	■	
Panama	Clariant Trading (Panamá), SA, Panamá	100.0		■		
Peru	Clariant (Perú) SA, Lima	91.4		■	■	
Philippines	Clariant (Philippines) Corp., Makati City, Manila	100.0		■		
Poland	Clariant Polska Sp. z.o.o., Warsaw	100.0		■		
Portugal	Clariant Químicos (Portugal) Lda, Porto	100.0		■	■	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	100.0		■	■	
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg	100.0		■	■	
Spain	Clariant Ibérica S.A., Barcelona	100.0		■	■	■
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	100.0		■	■	
Sweden	Clariant (Sverige) AB, Mölndal	100.0		■		
	Clariant Masterbatches Norden AB, Malmö	100.0		■	■	
Switzerland	Clariant (Schweiz) AG, MuttENZ	100.0		■	■	■
	Clariant International AG, MuttENZ	100.0	■			
Taiwan	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
Thailand	Clariant Chemicals (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Bangkok	100.0		■	■	
Tunisia	Clariant Tunisie SA, Cherguia-Tunis	49.9		■		
Turkey	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
USA	Clariant Corporation, Charlotte, NC	100.0		■	■	■
	Clariant Life Science Molecules (America) Inc., Elgin, SC	100.0		■	■	■
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL	100.0		■	■	■
	Clariant Life Science Molecules (Missouri) Inc., Springfield, MO	100.0		■	■	
Venezuela	Clariant Venezuela S.A., Maracay	100.0		■	■	
Vietnam	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0		■		

32. Events subsequent to the balance sheet date

On 7 February 2005 Clariant announced a restructuring project in the French subsidiary Clariant Huningue. The measures comprise a head-count reduction of 75 people and the write-off of fixed assets in the Life Science Chemicals Division as a result of the transfer of the production activities to other sites. The total costs of this project are estimated at CHF 33 million and will be included in the financial statement in the first quarter of 2005.

This project is part of the large-scale restructuring and performance improvement project, which was announced in February 2004.

Report of the Group auditors

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

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes – pages 68 to 102) of the Clariant Group for the year ended 31 December 2004.

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

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

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

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

PricewaterhouseCoopers AG

D. Suter Dr. M. Jeger

Basel, 2 March 2005

Review of trends
Five-year Group overview

Five-year Group overview 2000–2004		2004	2003	2002	2001	2000
Divisional sales	CHF mn	8 772	8 783	9 606	10 195	11 006
Change relative to preceding year						
in Swiss francs	%	0	- 9	- 6	- 7	16
in local currency	%	2	- 4	2	- 2	12
Group sales¹	CHF mn	8 530	8 516	9 330	9 871	10 583
Change relative to preceding year						
in Swiss francs	%	0	- 9	- 5	- 7	14
in local currency	%	2	- 4	3	- 2	10
Operating income before restructuring, disposals and amortization of goodwill	CHF mn	633	611	690	631	1 135
Change relative to preceding year						
as a % of sales	%	7.4	7.2	7.4	6.4	10.7
Operating income after restructuring, disposals and amortization of goodwill	CHF mn	530	559	- 202	- 877	1 010
Change relative to preceding year						
as a % of sales	%	6.2	6.6	- 2.2	- 8.9	9.5
EBITDA after restructuring and disposals	CHF mn	915	1 119	1 193	1 395	1 657
Change relative to preceding year						
as a % of sales	%	10.7	13.1	12.8	14.1	15.7
Net income before minority interests	CHF mn	157	173	- 639	- 1 233	513
Change relative to preceding year						
as a % of sales	%	1.8	2.0	- 6.8	- 12.5	4.9
Investment in tangible fixed assets	CHF mn	289	301	339	505	535
Change relative to preceding year						
as a % of sales	%	3	4	4	5	5
Personnel costs	CHF mn	1 979	2 009	2 097	2 346	2 395
Change relative to preceding year						
as a % of sales	%	23	24	22	24	23
Employees at year-end	number	24 769	27 008	27 849	28 904	31 546
Change relative to preceding year						
	%	- 8	- 3	- 4	- 8	9

¹ Incl. trading.

Trend in Group sales by division	2004		2003		2002		2001 ¹		2000 ¹	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 203	26	2 179	26	2 769	30	2 965	30	3 211	31
Pigments & Additives	1 828	21	1 745	20	1 814	19	1 872	19	2 108	20
Masterbatches	1 108	13	1 041	12	1 027	11	1 038	11	1 145	11
Functional Chemicals	1 977	23	2 033	24	2 102	23	2 183	23	2 280	22
Life Science & Electronic Chemicals	1 414	17	1 518	18	1 618	17	1 616	17	1 651	16
Total divisions	8 530	100	8 516	100	9 330	100	9 674	100	10 395	100
Other (mainly trading activities)	–		–		–		197		188	
Total Group	8 530		8 516		9 330		9 871		10 583	

¹ Restated

Trend in Group sales by region	2004		2003		2002		2001		2000	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	4 214	49	4 239	50	4 564	49	4 867	49	5 152	49
The Americas	2 257	27	2 213	26	2 683	29	2 863	29	3 093	29
Asia/Australia/Africa	2 059	24	2 064	24	2 083	22	2 141	22	2 338	22
Total	8 530	100	8 516	100	9 330	100	9 871	100	10 583	100

Financial statements of Clariant Ltd, Muttenz

Clariant Ltd balance sheets

at 31 December 2004 and 2003

Assets	2004		2003	
	CHF	%	CHF	%
Long-term assets				
Shareholdings in Group companies	1 593 892 981		1 913 624 928	
Loans to Group companies	1 440 850 262		2 229 841 196	
Intangible fixed assets	4 210 214		–	
Total long-term assets	3 038 953 457	62.9	4 143 466 124	85.1
Short-term assets				
Receivables from Group companies	468 919 596		77 867 709	
Other receivables	48 275 366		6 762 916	
Accrued income	2 178 938		1 444 124	
Marketable securities	57 296 059		64 474 859	
Cash and cash equivalents	1 216 179 842		573 299 571	
Total short-term assets	1 792 849 801	37.1	723 849 179	14.9
Total assets	4 831 803 258	100.0	4 867 315 303	100.0

Equity and liabilities	2004		2003	
	CHF	%	CHF	%
Equity				
Total share capital	1 150 800 000		767 200 000	
Reserves				
General reserves	646 595 631		153 440 000	
Reserve for treasury shares	102 374 212		129 710 039	
Free reserves	105 479 978		12 967 770	
Total reserves	854 449 821		296 117 809	
Unappropriated earnings				
Balance from prior year	–		- 148 887 504	
Net income	186 256 727		244 751 885	
Total unappropriated earnings	186 256 727		95 864 381	
Total equity	2 191 506 548	45.4	1 159 182 190	23.8
Liabilities				
Long-term liabilities				
Straight bonds	718 110 000		918 715 000	
Other long-term liabilities	368 050 000		907 332 114	
Total long-term liabilities	1 086 160 000	22.5	1 826 047 114	37.5
Short-term liabilities				
Provisions	2 340 635		863 710	
Liabilities to Group companies	898 478 826		1 351 793 498	
Other liabilities	560 233 144		445 407 602	
Accrued expenses	93 084 105		84 021 189	
Total short-term liabilities	1 554 136 710	32.2	1 882 085 999	38.7
Total liabilities	2 640 296 710	54.6	3 708 133 113	76.2
Total equity and liabilities	4 831 803 258	100.0	4 867 315 303	100.0

Clariant Ltd income statements

for the years ended 31 December 2004 and 2003

	2004 CHF	2003 CHF
Income		
Income from financial assets	465 460 504	727 490 357
Income from cash, marketable securities and short-term deposits	31 993 034	35 453 781
Other income	69 817 533	57 502 649
Total income	567 271 071	820 446 787
Expenses		
Financial expense	200 874 300	225 524 782
Administrative expense	2 106 130	2 841 909
Depreciation on financial fixed assets	149 350 000	335 577 565
Other expenses (including taxes)	28 683 914	11 750 646
Total expenses	381 014 344	575 694 902
Net income	186 256 727	244 751 885

Notes to the financial statements of Clariant Ltd

1. Accounting policies

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

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

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

Provisions. Provisions are made to cover existing liabilities.

2. Financial assets

The principal direct and indirect affiliated companies, and other holdings of Clariant Ltd are shown on pages 100 to 101 of the Financial Report of the Clariant Group.

3. Cash, marketable securities and short-term financial assets

Securities include treasury shares valued at fair market value in the amount of CHF 57 million (prior year CHF 64 million) (see also Note 6.)

During a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, the investment in some of these companies was written down by CHF 149 million (prior year CHF 336 million.)

4. Capital increase

On 2 April 2004 the Shareholders' Meeting approved a capital increase in the amount of CHF 920 640 000. Total shares were increased by 76 720 000 shares to a total of 230 160 000 registered shares.

Paid-in share capital was increased by CHF 383 600 000 to a total of CHF 1 150 800 000. General reserves were increased from CHF 153 440 000 to CHF 646 595 631.

7. Reconciliation of equity

CHF	Share capital	General reserves	Reserve for treasury shares	Free reserves	Unappropriated earnings	Total
Balance 31.12.2003	767 200 000	153 440 000	129 710 039	12 967 770	95 864 381	1 159 182 190
Treasury share transactions			- 27 335 827	27 335 827		-
Appropriation of loss carried forward to reserves				65 176 381	- 65 176 381	-
Capital increase	383 600 000	537 040 000				920 640 000
Cost of capital increase		- 43 884 369				- 43 884 369
Dividend					- 30 688 000	- 30 688 000
Profit for the year					186 256 727	186 256 727
Balance 31.12.2004	1 150 800 000	646 595 631	102 374 212	105 479 978	186 256 727	2 191 506 548

5. Share capital

	31.12.2004	31.12.2003
Number of registered shares each with a par value of CHF 5	230 160 000	153 440 000
in CHF	1 150 800 000	767 200 000

Conditional capital	31.12.2004	31.12.2003
Number of registered shares each with a par value of CHF 5	8 000 000	8 000 000
in CHF	40 000 000	40 000 000

6. Treasury shares (number with a par value of CHF 5 each)

	2004	2003
Holdings on 1 January	3 532 869	3 787 828
Shares bought at market value	721 642	0
Shares sold at market value	- 800 000	0
Shares to employees	- 332 110	- 254 959
Holdings on 31 December	3 122 401	3 532 869

The average price of shares bought in 2004 was CHF 13.54 (2003: n/a).

The average price of shares sold in 2004 was CHF 17.76 (2003: n/a).

8. Straight bonds

CHF thousand	Interest rate	Term	Amount 31.12.2004	Amount 31.12.2003
Straight bond	4.125	1996–2006	159 460	159 460
Straight bond	3.375	1997–2004	0	250 360
Straight bond	3.750	1997–2007	174 610	174 610
Straight bond	3.000	1998–2005	200 605	200 605
Straight bond	4.250	2000–2008	384 040	384 040
Total			918 715	1 169 075

9. General reserves

The general reserves were increased in connection with the capital increase by CHF 493 155 631. The general reserves must be at least 20% of the share capital of Clariant Ltd as this is the minimum amount required by the Swiss Code of Obligations.

10. Reserve for treasury shares

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

11. Contingent liabilities

CHF mn	Outstanding liabilities 31.12.2004	Outstanding liabilities 31.12.2003
Outstanding liabilities as guarantees in favor of Group companies	754	843
Outstanding liabilities as guarantees in favor of third parties	39	0

12. Voting and legal registration limitations

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

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

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

Based on the information available at the time of this report, Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns 10.01% of the share capital on 31 December 2004 (2003: between 5.12 % and 10%).

Appropriation of available earnings

The Board of Directors proposes to transfer the net income of the year in the amount of CHF 186 256 727 to free reserves.

Available unappropriated earnings	CHF
Balance from prior year	0
Net income of the year	186 256 727
Total available unappropriated earnings	186 256 727

Appropriation	CHF
Transfer to free reserves	- 186 256 727
Balance to be carried forward	0

Proposed payout of nominal value reduction

The Board of Directors proposes to repay CHF 0.25 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 5 to CHF 4.75 per registered share. The proposed payout would reduce the share capital by CHF 57 540 000. The proposed payout of the nominal value reduction of CHF 0.25 each is expected on 1 July 2005, subject to approval by the ordinary General Meeting of shareholders and subject to the fulfillment of the necessary requirements and the entry of the share capital reduction in the Commercial Register of the Canton of Basel-Landschaft.

Report of the statutory auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 106 to 109) of Clariant Ltd for the year ended 31 December 2004.

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

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

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

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

PricewaterhouseCoopers AG

Dr. M. Jeger Ph. Speck

Basel, 2 March 2005

Forward-looking statements

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

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