

Financial Review

FULL YEAR 2019

13 February 2020

CLARIANT INTERNATIONAL LTD

Rothausstrasse 61
4132 Muttenz
Switzerland

what is precious to you?

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Key Financial Group Figures

Continuing operations	2019		Full Year 2018	
	CHF m	% of sales	CHF m	% of sales
Sales	4 399	100.0	4 404	100.0
Local currency growth (LC):	3%			
<i>Organic growth</i> ¹	3%			
<i>Acquisitions/divestitures</i>	0%			
Currencies	-3%			
Gross profit	1 375	31.3	1 362	30.9
EBITDA before exceptional items*	740	16.8	739	16.8
EBITDA*	461	10.5	607	13.8
Operating income before exceptional items*	444	10.1	480	10.9
Operating result	165	3.9	348	7.8
Net result from continuing operations	-34	-0.7	213	4.8
Basic earnings per share (CHF/share)	-0.17		0.59	
Adjusted earnings per share (CHF/share)*	0.87		1.03	
Net result total ²	38		356	
Operating cash flow	509		530	
Discontinued operations:				
Sales	2 127		2 219	
Net result from discontinued operations	72		143	
Other key figures total Group:		31.12.2019		31.12.2018
Net debt*	1 372		1 374	
Equity (including non-controlling interests)	2 677		2 970	
Gearing	51%		46%	
Return on invested capital (ROIC)**	9.0%		9.0%	
Number of employees	17 223		17 901	

¹ Throughout this statement the term "organic growth" is used to mean volume and price effects excluding the impacts of changes in FX rates and acquisitions/divestitures.

² Total Group, including discontinued operations.

* See Definition of Terms of Financial Measurements on pages 4 and 5.

** Clariant calculates ROIC for continuing operations by dividing NOPLAT before exceptional items by the average net capital employed. NOPLAT is calculated by taking the operating income before exceptional items adjusted by the expected tax rate. Net capital employed also considers operating cash and lease liabilities.

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FINANCIAL DISCUSSION – FULL YEAR**Continuing operations Sales and Net Results 2019**

Clariant decided to sell the Masterbatches and Pigments businesses in the continuing effort to optimize the Group's portfolio. Hence, these activities were reclassified to discontinued operations and the assets and liabilities pertaining to the two Business Units were reclassified to Assets held for Sale and Liabilities pertaining to Assets held for Sale.

Sales increased by 3 % organically in local currency. In Swiss francs, sales remained stable.

Gross margin for the full year 2019 was 31.3 % of sales, compared to 30.9 % recorded in the prior-year period due to a more favorable product mix.

Selling, general and administrative costs increased in 2019 to 24.3 % of sales, compared to 21.0 % in 2018, due to the one-off provision in the amount of CHF 231 million for an ongoing competition law investigation by the European Commission.

Research and development costs remained at CHF 173 million in the full year of 2019, close to the level of the previous year at CHF 175 million.

Income from associates and joint ventures of CHF 33 million in the full year of 2019 was below the level of the previous year (CHF 84 million), due to the income from the partial sale of the stake in Stahl in 2018.

Net financial result from continuing operations in 2019 decreased to CHF -94 million versus CHF -67 million in 2018, given increased foreign exchange losses and the newly recognized lease liabilities under IFRS 16 (see Note 2).

Tax expense from continuing operations of CHF 105 million increased in 2019, compared to CHF 68 million tax expense recorded in the prior-year period. The recorded tax expense was adversely impacted by the non-recognition of deferred tax assets on tax losses as their recoverability was not considered probable, the US minimum tax BEAT and further one-time events. These effects and the fact that no further tax assets were capitalized in France and Switzerland as in the prior year led to a higher effective tax rate from continuing operations before the one-off provision.

Net result amounted to CHF -34 million in the full year of 2019, which was below the CHF 213 million net income reported in the same period of 2018. This decrease was mostly due to the CHF 231 million provision for an ongoing competition law investigation by the European Commission.

Net result from discontinued operations of CHF 72 million was recorded in 2019, compared to CHF 143 million reported in the same period of 2018.

Balance Sheet Key Figures – December 2019

The changes in the balance sheet from 31 December 2018 to 31 December 2019 are marked by the adoption of IFRS 16 Leases, the reclassification to assets held for sale of the Masterbatches and Pigments businesses and the sale of the Healthcare Packaging business on 31 October 2019.

Total assets changed only minimally to CHF 7.979 billion as of 31 December 2019 from CHF 7.981 billion at the end of 2018.

Right-of-use assets amounted to CHF 219 million at the end of 2019. On the adoption of IFRS 16 Leases at the beginning of 2019, right-of-use assets amounted to CHF 256 million.

Investments in associates and joint ventures decreased to CHF 248 million from CHF 368 million at the end of 2018. This is the net effect of the disposal of GTC associates in the United States, dividends paid mainly by Infracore companies in Germany, proportionate income and the reclassification to assets held for sale (see Note 7).

Short-term deposits increased to CHF 304 million from CHF 26 million at the end of 2018. They include short-term deposits with an original maturity between 90 and 365 days.

Assets held for sale and liabilities directly associated with assets held for sale amounted to CHF 1.305 billion and CHF 559 million, respectively, as of 31 December 2019. This mainly impacts the assets and liabilities pertaining to the activities of the "discontinued operations".

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Non-current financial debts decreased to CHF 1.485 billion at the end of December 2019 from CHF 1.711 billion at the end of December 2018 and **current financial debts** increased to CHF 587 million at the end of December 2019 from CHF 529 million at the end of December 2018. The decrease in non-current financial debts and the increase in current financial debts are mainly due to the combined effect of the reclassification to current financial debts of the EUR 150 million certificate of indebtedness maturing in April 2020, of the EUR 212 million certificate of indebtedness maturing in October 2020 and the new bonds totaling CHF 200 million launched in April 2019. Additionally, a bond amounting to CHF 285 million issued in 2012 reached maturity on 24 April 2019 and was repaid. Due to the implementation of IFRS 16, finance lease liabilities presented as part of financial debts at the end of December 2018 were reclassified to the separate lines in the balance sheet.

Provisions for current liabilities increased to CHF 393 million at the end of December 2019 from CHF 271 million at the end of December 2018. In 2017, the European Commission initiated an investigation into Clariant and other companies in the ethylene purchasing market. As a result of further developments, Clariant made a one-off provision of CHF 231 million.

Equity decreased to CHF 2.677 billion at the end of December 2019 from CHF 2.970 billion at the end of 2018. This was due to the combined effect of a distribution from capital contribution reserves of CHF 181 million, the net profit for the period of CHF 38 million, the negative currency translation effect of CHF 101 million, dividends paid to non-controlling interests amounting to CHF 20 million and the net impact of negative CHF 60 million net of deferred tax, of actuarial losses on retirement benefit obligations and a positive return on pension plan assets. These effects were complemented by the fair value adjustment on financial assets amounting to CHF 14 million, net of deferred tax and also by the positive net investment hedge effect amounting to CHF 35 million.

Net debt remained almost unchanged at CHF 1.372 billion at the end of December 2019, compared to CHF 1.374 billion at the end of 2018. This figure includes current and non-current financial debts, lease liabilities (2019, in accordance with IFRS 16, CHF 246 million; 2018, in accordance with IAS 17, CHF 17 million), cash and cash equivalents, short-term deposits and financial instruments with positive fair values reported under other current assets, including the part reported under liabilities directly associated with assets held for sale.

Gearing, which reflects net financial debt in relation to equity, including non-controlling interests, increased to 51 % from 46 % at the end of 2018 as a result of the decrease in equity and the impact of the implementation of IFRS 16 (see Note 2).

Cash Flow

Cash flow from operating activities before changes in working capital and provisions for 2019 was CHF 534 million, compared to CHF 802 million for 2018.

Working capital and provisions decreased by CHF 96 million in 2019, compared with an increase of CHF 55 million in 2018.

Net cash generated from operating activities was at CHF 509 million in 2019, compared to CHF 530 million for 2018.

Investments in PPE and investments in intangible assets were CHF 273 million and CHF 16 million, respectively, in 2019, compared to CHF 237 million and CHF 20 million, respectively, for 2018.

Net proceeds from the disposal of Healthcare Packaging amounted to CHF 295 million.

Financing activities mainly include the distribution to Clariant shareholders and to non-controlling interests, proceeds from and repayments of financial debt and lease liabilities and the related interest paid and received.

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DEFINITION OF TERMS OF FINANCIAL MEASUREMENTS (UNAUDITED)

The following financial measurements are supplementary financial indicators. They should be considered in addition to, not as a substitute for, operating income, net income, operating cash flow and other measures of financial performance and liquidity reported in accordance with International Financial Reporting Standards (IFRS).

EBITDA

– (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income plus depreciation of PPE, plus impairment and amortization of intangible assets, and can be reconciled from the Condensed Financial Statements as follows:

EBITDA (Continuing)

	Full Year	
<i>CHF m</i>	2019	2018
Operating result	165	348
+ Depreciation of PPE	175	191
+ Impairment	–	–
+ Depreciation of RoU assets	54	–
+ Amortization of intangible assets	67	68
EBITDA	461	607

EBITDA before exceptional items

– is calculated as EBITDA plus expenses for restructuring, impairment and transaction-related costs, less impairment and gain/loss on disposals.

EBITDA before exceptional items (Continuing)

	Full Year	
<i>CHF m</i>	2019	2018
EBITDA	461	607
+ Restructuring, impairment and transaction-related costs*	50	78
+ Provision for EU investigation	231	–
– Impairment (reported under Restructuring, impairment and transaction-related costs)	–	–
+ (Gain)/loss from the disposal of activities not qualifying as discontinued operations**	–2	54
EBITDA before exceptional items	740	739

Operating income before exceptional items

– is calculated as operating income plus restructuring, impairment and transaction-related costs and gain/loss on disposals.

Operating income before exceptional items (Continuing)

	Full Year	
<i>CHF m</i>	2019	2018
Operating result	165	348
+ Restructuring, impairment and transaction-related costs*	50	78
+ Provision for EU investigation	231	–
+ (Gain)/loss from the disposal of activities not qualifying as discontinued operations**	–2	54
Operating income before exceptional items	444	480

* Restructuring, impairment and transaction-related costs 2019: CHF 50 million (2018: CHF 78 million), of which: Cost of goods sold CHF 9 million (2018: CHF 10 million); Selling, general and administrative costs CHF 43 million (2018: CHF 67 million); Research and development income CHF 2 million (2018: expenses CHF 1 million). Selling, general and administrative costs include a one-off provision of CHF 231 million.

** (Gain)/loss from the disposal of activities not qualifying as discontinued operations 2019: CHF 2 million gain (2018: CHF 54 million loss) reported under Selling, general and administrative costs.

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Adjusted earnings per share

– is the earnings per share adjusted for the impact of exceptional items, assuming an adjusted income tax rate of 26% for the period.

Adjusted earnings per share

	Full Year	
<i>CHF m</i>	2019	2018
Operating income before exceptional items	444	480
+ Amortization of intangible assets	67	68
+ Finance income	23	19
– Finance costs	–117	–86
Adjusted income before taxes	417	481
– Adjusted income taxes	–108	–125
Adjusted net result	309	356
Thereof attributable to non-controlling interests	23	17
Thereof attributable to shareholders of Clariant Ltd	286	339
Weighted average number of shares outstanding	329594997	329613975
Adjusted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)	0.87	1.03

Net debt

– is the sum of current and non-current financial debt less cash and cash equivalents, short-term deposits and financial derivatives with positive fair values.

Net debt

<i>CHF m</i>	31.12.2019	31.12.2018
Non-current financial debt	1485	1711
+ Lease liabilities	217	–
+ Current financial debt*	587	529
– Cash and cash equivalents	–638	–833
– Short-term deposits	–304	–26
– Financial derivatives with positive fair values	–4	–7
+ Lease liabilities reported as held for sales	29	–
Net debt	1372	1374

* Current financial debt in 2018 included financial lease liabilities.

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CONDENSED FINANCIAL STATEMENTS OF THE CLARIANT GROUP

Consolidated balance sheets

ASSETS	31.12.2019		31.12.2018	
	CHF m	%	CHF m	%
Non-current assets				
Property, plant and equipment	1649		2081	
Right-of-use assets	219		–	
Intangible assets	1351		1682	
Investments in associates and joint ventures	248		368	
Financial assets	218		211	
Prepaid pension assets	41		30	
Deferred tax assets	234		269	
Total non-current assets	3960	49.6	4641	58.1
Current assets				
Inventories	651		1018	
Trade receivables	680		1017	
Other current assets	337		366	
Current income tax receivables	104		65	
Short-term deposits	304		26	
Cash and cash equivalents	638		833	
Total current assets	2714	34.0	3325	41.7
Assets held for sale	1305	16.4	15	0.2
Total assets	7979	100.0	7981	100.0
EQUITY AND LIABILITIES				
	CHF m	%	CHF m	%
Equity				
Share capital	1228		1228	
Treasury shares (par value)	–10		–8	
Other reserves	–431		–189	
Retained earnings	1719		1767	
Total capital and reserves attributable to Clariant shareholders	2506		2798	
Non-controlling interests	171		172	
Total equity	2677	33.6	2970	37.2
Liabilities				
Non-current liabilities				
Financial debts	1485		1711	
Deferred tax liabilities	43		47	
Retirement benefit obligations	673		778	
Non-current lease liabilities	172		–	
Provision for non-current liabilities	164		125	
Other liabilities	68		72	
Total non-current liabilities	2605	32.6	2733	34.2
Current liabilities				
Trade payables and other liabilities	875		1266	
Financial debts	587		529	
Current income tax liabilities	238		212	
Current lease liabilities	45		–	
Provision for current liabilities	393		271	
Total current liabilities	2138	26.8	2278	28.6
Liabilities directly associated with assets held for sale	559	7.0	–	–
Total liabilities	5302	66.4	5011	62.8
Total equity and liabilities	7979	100.0	7981	100.0

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Consolidated income statements

	2019		Full Year 2018 ¹	
	CHF m	%	CHF m	%
Sales	4 399	100.0	4 404	100.0
Costs of goods sold	-3 024	68.7	-3 042	69.1
Gross profit	1 375	31.3	1 362	30.9
Selling, general and administrative costs	-1 070	24.3	-923	21.0
Research and development	-173	3.9	-175	4.0
Income from associates and joint ventures	33	0.8	84	1.9
Operating result	165	3.9	348	7.8
Finance income	23	0.5	19	0.4
Finance costs	-117	2.7	-86	2.0
Income before taxes	71	1.7	281	6.3
Taxes	-105	2.4	-68	1.5
Net result from continuing operations	-34	-0.7	213	4.8
Attributable to:				
Shareholders of Clariant Ltd	-57		196	
Non-controlling interests	23		17	
Net result from discontinued operations	72		143	
Attributable to:				
Shareholders of Clariant Ltd	67		141	
Non-controlling interests	5		2	
Net result total	38		356	
Attributable to:				
Shareholders of Clariant Ltd	10		337	
Non-controlling interests	28		19	
Basic earnings/loss per share attributable to the shareholders of Clariant Ltd (CHF/share):				
Continuing operations	-0.17		0.59	
Discontinued operations	0.20		0.43	
Total	0.03		1.02	
Diluted earnings/loss per share attributable to the shareholders of Clariant Ltd (CHF/share):				
Continuing operations	-0.17		0.59	
Discontinued operations	0.20		0.43	
Total	0.03		1.02	

¹ Restated - see note 7.

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Consolidated statements of comprehensive income

	Full Year	
<i>CHF m</i>	2019	2018
Net result	38	356
Other comprehensive result:		
<i>Remeasurements:</i>		
Actuarial gain/loss on retirement benefit obligations	-316	126
Return on retirement benefit plan assets, excluding amount included in interest expense	219	-149
Fair value adjustment on financial assets	16	2
Total items that will not be reclassified subsequently to the income statement, gross	-81	-21
Deferred tax on remeasurements and fair value adjustment on financial assets	35	1
Total items that will not be reclassified subsequently to the income statement, net	-46	-20
Net investment hedge	35	28
Cash flow hedges	-2	-1
Currency translation differences	-120	-146
Share of other comprehensive income of associates and joint ventures	-9	-
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities	19	2
Total items that may be reclassified subsequently to the income statement, gross	-77	-117
Deferred tax effect	-	-
Total items that may be reclassified subsequently to the income statement, net	-77	-117
Other comprehensive result for the period, net of tax	-123	-137
Total comprehensive result for the period	-85	219
Attributable to:		
Shareholders of Clariant Ltd	-106	210
Non-controlling interests	21	9
Total comprehensive result for the period	-85	219
Total comprehensive result attributable to shareholders of Clariant Ltd arising from:		
Continuing operations	-142	114
Discontinued operations	36	96
Total comprehensive result attributable to shareholders of Clariant Ltd	-106	210

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Consolidated statement of changes in equity

							Full Year			
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves	Retained earnings	Total attributable to equity holders	Non-controlling interests	Total equity
CHF m										
Balance 31 December 2017	1228	-10	1171	5	-1093	83	1459	2760	179	2939
Changes in accounting policy ¹						-	-4	-4		-4
Balance 1 January 2018	1228	-10	1171	5	-1093	83	1455	2756	179	2935
Net result							337	337	19	356
Cash flow hedge				-1		-1		-1		-1
Net investment hedge					28	28		28		28
<i>Remeasurements:</i>										
Actuarial gain/ loss retirement benefit obligations							126	126		126
Return on retirement benefit plan assets, excluding amount included in interest expense							-149	-149		-149
Deferred tax on remeasurements							1	1		1
Currency translation differences					-136	-136		-136	-10	-146
Fair value adjustment on financial assets							2	2		2
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities					2	2		2		2
Total comprehensive result for the period	-	-	-	-1	-106	-107	317	210	9	219
Distributions			-165			-165		-165		-165
Dividends to non-controlling interests									-16	-16
<i>Employee share scheme:</i>										
Effect of employee services							-12	-12		-12
Treasury share transactions		2					7	9		9
Balance 31 December 2018	1228	-8	1006	4	-1199	-189	1767	2798	172	2970
Changes in accounting policy ²							1	1	-	1
Balance 1 January 2019	1228	-8	1006	4	-1199	-189	1768	2799	172	2971
Net result							10	10	28	38
Cash flow hedge				-2		-2		-2		-2
Net investment hedge					35	35		35		35
<i>Remeasurements:</i>										
Actuarial gain/ loss retirement benefit obligations							-316	-316		-316
Return on retirement benefit plan assets, excluding amount included in interest expense							219	219		219
Deferred tax on remeasurements							37	37		37
Currency translation differences					-113	-113		-113	-7	-120
Fair value adjustment on financial assets							14	14		14
Share in other comprehensive income of associates and joint ventures							-9	-9		-9
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities					19	19		19		19
Total comprehensive result for the period	-	-	-	-2	-59	-61	-45	-106	21	-85
Distributions			-181			-181		-181		-181
Dividends to non-controlling interests									-20	-20
Transaction with non-controlling interests							1	1	-2	-1
<i>Employee share scheme:</i>										
Effect of employee services							-1	-1		-1
Treasury share transactions		-2					-4	-6		-6
Balance 31 December 2019	1228	-10	825	2	-1258	-431	1719	2506	171	2677

¹ The impact of the changes in accounting policies include CHF 4 million (net of tax) related to the implementation of IFRS 9.

² The impact of the changes in accounting policies include CHF 1 million related to the implementation of IFRS 16. See Note 2.

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Consolidated statements of cash flows

	Full Year	
<i>CHF m</i>	2019	2018
Net result	38	356
Adjustment for:		
Depreciation and amortization	330	325
Impairment of working capital	21	23
Income from associates and joint ventures	-52	-130
Tax expense	140	109
Net financial income and costs	85	81
(Gain) /loss from the disposal of activities not qualifying as discontinued operations	-2	54
(Gain) /loss on disposal of discontinued operations	-48	-
Other non-cash items	9	-24
Total reversal of non-cash items	483	438
Dividends received from associates and joint ventures	42	50
Payments for restructuring	-29	-42
Cash flow before changes in working capital and provisions	534	802
Changes in inventories	-13	-156
Changes in trade receivables	-23	71
Changes in trade payables	-19	121
Changes in other current assets and liabilities	-66	-39
Changes in provisions (excluding payments for restructuring)	217	-52
Cash generated from operating activities	630	747
Income taxes paid	-121	-217
Net cash generated from operating activities	509	530
Investments in property, plant and equipment	-273	-237
Investments in intangible assets	-16	-20
Investments in financial assets, associates and joint ventures	-4	-4
Sale of property, plant and equipment and intangible assets	14	14
Changes in short-term deposits	-283	20
Changes in other financial assets	-2	-5
Proceeds from the disposal of associates and financial assets	4	62
Proceeds from the disposal of discontinued operations	295	-
Proceeds associated to disposals of activities not qualifying as discontinued operations	11	38
Net cash provided by/used in investing activities	-254	-132
Purchase of treasury shares	-10	-
Distributions from the reserves to the shareholders of Clariant Ltd	-181	-165
Dividends paid to non-controlling interest	-20	-16
Proceeds/ payments associated to transactions with non-controlling interests	-1	-
Proceeds from financial debts	268	350
Repayments of financial debts	-370	-354
Repayments of lease liabilities	-58	-
Interest paid	-79	-79
Interest paid for leases	-12	-
Interest received	23	18
Net cash provided by/used in financing activities	-440	-246
Currency translation effect on cash and cash equivalents	-10	-20
Net change in cash and cash equivalents	-195	132
Cash and cash equivalents at the beginning of the period	833	701
Cash and cash equivalents at the end of the period	638	833

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**1. Basis of preparation of financial statements**

These financial statements are the condensed consolidated financial statements (hereafter “the consolidated financial statements”) of Clariant Ltd, a company registered in Switzerland, and its subsidiaries (hereafter “the Group”) for the twelve-month period ended on 31 December 2019. The condensed consolidated financial statements, which do not contain all the information that International Financial Reporting Standards (IFRS) would require for a full set of financial statements, have been prepared in accordance with IFRS and with the accounting policies set out in the Clariant Financial Report for the year ended 2019. The accounting policies applied are consistent with the ones applied at year-end 2018, except for the adoption of new and amended standards as set out below.

The consolidated financial statements were approved on 11 February 2020 by the Board of Directors.

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and disclosure of contingent liabilities at the date of the consolidated financial statements. If, in the future, such estimates and assumptions, which are based on management’s best judgment at the date of the consolidated financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

2. New accounting standards

The Group has applied the following standards and amendments for the first time:

- IFRS 16 Leases
- Annual improvements 2015-2017 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayments Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The Group had to change its accounting policies and made certain adjustments as of 1 January 2019 following the adoption of IFRS 16. The other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

IFRS 16 Leases, introduces a new lessee accounting approach by which the lessee is required to recognize its leases on the balance sheet by way of the recognition of a »right of use« asset and a lease liability. It also provides new guidance on sale and lease-back accounting and requires new and different disclosures. This new standard replaces the guidance of IAS 17 Leases and is effective for accounting periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 as of 1 January 2019 by applying the simplified transition approach, not restating comparative amounts for 2018. The reclassification and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had been previously classified as operating leases under IAS 17 Leases. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. For leases previously classified as finance leases, the Group recognized the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. For the measurement of the right-of-use assets at the date of first-time application, initial direct costs were not taken into account, as permitted by IFRS 16. The Group has also elected to apply the practical expedient that allows it to rely on its assessment of whether leases were onerous by applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.

The adoption of IFRS 16 affected the balance sheet on 1 January 2019 with a decrease of CHF 24 million of property, plant and equipment, an increase of CHF 256 million of right-of-use assets, a decrease of CHF 18 million of financial debts and an increase of CHF 249 million of lease liabilities. The cumulative effect recorded at 1 January 2019 was an increase in retained earnings of CHF 1 million.

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The reconciliation from operating lease commitments under IAS 17 as at 31 December 2018 to lease liabilities under IFRS 16 as at 1 January 2019 is as follows:

+ Obligation from operating leases as at 31 December 2018:	CHF	260 million
– Effect of discounting	CHF	–35 million
+ Carrying amount of finance lease liabilities as at 31 December 2018	CHF	17 million
– Short-term leases and low-value leases recognized on a straight-line basis as expense	CHF	–7 million
+ Adjustments as a result of a different treatment of extension and termination options	CHF	15 million
– Other adjustments	CHF	–1 million
Lease liabilities as at 1 January 2019	CHF	249 million

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of 1 January 2019 was approximately 3.4 %.

3. Seasonality of operations

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

4. Revenue recognized over a period of time

Revenue recognized over a period of time incurred in 2019 amounted to CHF 100 million, compared to CHF 89 million in the prior year. It arose almost exclusively in the Business Area Natural Resources.

5. Changes in segment reporting

Clariant has reallocated Business Unit Additives from Business Area Plastics & Coatings to Business Area Natural Resources (now comprising BU Oil and Mining Services, BU Functional Minerals and BU Additives). Business Area Plastics & Coatings (BU Masterbatches and BU Pigments) is reported under discontinued operations. Restatements for 2018 have been made accordingly.

6. Fair value measurement

IFRS 13 Fair Value Measurement requires the disclosure of fair value measurements for financial instruments measured at fair value in the balance sheets in accordance with the fair value measurement hierarchy. The fair value hierarchies are defined as follows:

– **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

– **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

– **Level 3:** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All derivative financial instruments held by the Group at the end of 2019 are classified as “Level 2” as defined by IFRS 13 Fair Value Measurement. The valuation of forward exchange rate contracts is based on the discounted cash flow model, using observable inputs such as interest curves and spot rates. FX options are valued based on a Black-Scholes model, using major observable inputs such as volatility and exercise prices.

Clariant is also the owner of a number of small-scale participations in companies engaged in activities closely related to those of Clariant. These shareholdings are valued at fair value through other comprehensive income using “Level 3” methods to determine the fair value.

There are no long-term financial liabilities valued at fair value. The fair value of financial liabilities approximates their carrying value, except for the straight bonds. Fair values of straight bonds are determined by quoted market prices (level 1 in the fair value hierarchy) and amounted to CHF 574 million at the end of 2019, compared to their carrying value of CHF 535 million.

There were no transfers between the levels in 2018 as well as in 2019.

7. Discontinued operations

In 2019, Clariant announced its intention to sell the Business Units Pigments and Masterbatches and the Business Line Healthcare Packaging, which operated as a part of the Business Unit Masterbatches. As a result, these activities were reclassified to discontinued operations in June 2019. Income and expenses of the activities concerned have been reclassified to “Discontinued operations” in the consolidated income statement and the assets and liabilities pertaining to these activities have been reclassified to “assets held for sale” and “liabilities directly associated with assets held for sale” in the consolidated balance sheet, according to IFRS 5, Non-current assets held for sale and discontinued operations.

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On 31 October 2019, Clariant sold its Healthcare Packaging business to Arsenal Capital Partners. The final total consideration of the sale amounted to CHF 310 million; the proceeds net of cash amounted to CHF 295 million and the after tax gain to CHF 51 million.

In December 2019, a contract was signed with the US-based PolyOne Corporation to sell the Business Unit Masterbatches.

Clariant considers it highly probable that the Business Unit Pigments will be sold within the next twelve months.

Assets and liabilities reclassified to "held for sale" in the context of this repositioning as of 31 December 2019 amount to CHF 1 305 million and CHF 559 million, respectively.

Sales from discontinued operations amounted to CHF 2 127 million in 2019, compared to CHF 2 219 million in the previous year. The net result from discontinued operations was a gain in the amount of CHF 72 million for 2019, compared to CHF 143 million in the previous year.

8. Restructuring, impairment and transaction-related costs

During 2019, Clariant recorded restructuring expenses pertaining to its continuing operations in the amount of CHF 4 million, mainly pertaining to projects in Europe and transaction-related costs in the amount of CHF 46 million. Additionally, a one-off provision of CHF 231 million was made for an ongoing competition law investigation by the European Commission.

During the same period in the previous year, restructuring, impairment and transaction-related costs pertaining to the continuing operations amounted to CHF 78 million.

9. Distribution from reserves

On 1 April 2019, the General Meeting approved a distribution of reserves from capital contribution of CHF 0.55 per registered share from capital contribution reserves. On 8 April 2019, a distribution totaling CHF 181 million was made to Clariant shareholders.

10. Repayments of financial liabilities

On 24 April 2019, a bond issued in 2012 in the amount of CHF 285 million reached maturity and was repaid.

11. Launch of new bonds

On 15 April 2019, the new bonds totaling CHF 200 million were launched with a term of 7 years at 1.125 % p.a. fixed.

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12. Business Area figures (Continuing Operations)

Full Year	Sales to 3rd parties				EBITDA before exceptionals			EBITDA		
	2019	2018	% CHF	% LC	2019	2018	% CHF	2019	2018	% CHF
<i>CHF m</i>										
Care Chemicals	1600	1665	-4	-1	285	316	-10	282	314	-10
Catalysis	925	861	7	9	218	199	10	212	185	15
Natural Resources	1874	1878	-	4	308	293	5	305	271	13
Business Areas total	4399	4404			811	808		799	770	
Corporate	-	-			-71	-69		-338	-163	
Total	4399	4404	-	3	740	739	-	461	607	-24

	Operating income before exceptionals			Operating income			Systematic depreciation of PPE and Right-of-use assets	
	2019	2018	% CHF	2019	2018	% CHF	2019	2018
<i>CHF m</i>								
Care Chemicals	214	253	-15	211	251	-16	64	56
Catalysis	146	125	17	140	111	26	57	55
Natural Resources	211	216	-2	208	194	7	71	53
Business Areas total	571	594		559	556		192	164
Corporate	-127	-114		-394	-208		37	27
Total	444	480	-8	165	348	-53	229	191

13. Business Area margins (Continuing Operations)

Full Year	Sales to 3rd parties (Share of Total)		EBITDA before exceptionals		EBITDA	
	2019	2018	2019	2018	2019	2018
<i>in %</i>						
Care Chemicals	36.4	37.8	17.8	19.0	17.6	18.9
Catalysis	21.0	19.6	23.6	23.1	22.9	21.5
Natural Resources	42.6	42.6	16.4	15.6	16.3	14.4
Total	100.0	100.0	16.8	16.8	10.5	13.8

	Operating income b. exceptionals		Operating income	
	2019	2018	2019	2018
<i>in %</i>				
Care Chemicals	13.4	15.2	13.2	15.1
Catalysis	15.8	14.5	15.1	12.9
Natural Resources	11.3	11.5	11.1	10.3
Total	10.1	10.9	3.8	7.9

14. Discontinued Operations

	Full Year			
	2019	2018	% CHF	% LC
<i>CHF m</i>				
Sales	2127	2219	-4	-2
EBITDA before exceptional items	203	279	-27	
-margin, %	9.5	12.6		
EBITDA after exceptional items	158	264	-40	
-margin, %	7.4	11.9		
Net income	72	143		

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15. Condensed earnings per share data

	Full Year	
	2019	2018
Net result attributable to shareholders of Clariant Ltd (CHF m)		
Continuing operations	-57	196
Discontinued operations	67	141
Total	10	337
Shares		
Number of registered shares at 31.12.2019 and 31.12.2018 respectively	331 939 199	331 939 199
Weighted average number of shares outstanding	329 594 997	329 613 975
Adjustment for granted Clariant shares	882 428	833 033
Weighted average diluted number of shares outstanding	330 477 425	330 447 008
Basic earnings/loss per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	-0.17	0.59
Discontinued operations	0.20	0.43
Total	0.03	1.02
Diluted earnings/loss per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	-0.17	0.59
Discontinued operations	0.20	0.43
Total	0.03	1.02

16. Finance income and costs

	Full Year	
	2019	2018
Finance income		
<i>in CHF m</i>		
Interest income	15	12
Other financial income	8	7
Total finance income	23	19
Finance costs		
<i>in CHF m</i>		
Interest costs	-96	-88
<i>thereof effect of discounting of non-current provisions</i>	-4	-3
<i>thereof interest on lease liabilities</i>	-12	-
<i>thereof net interest component of pension provisions</i>	-18	-15
Other financial expenses	-12	-12
Total finance costs before currency result	-108	-100
Currency result, net	-26	-
Total finance costs	-134	-100
thereof reported under discontinued operations	-17	-14
Total finance costs continuing operations	-117	-86

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17. Foreign exchange rates

Rates used to translate the consolidated balance sheets (closing rates)	31.12.2019	31.12.2018	Change %
1 USD	0.97	0.98	-1
1 EUR	1.08	1.13	-4
1 BRL	0.24	0.25	-4
1 CNY	0.14	0.14	-
100 INR	1.35	1.41	-4
100 JPY	0.89	0.90	-1

			Full Year
Average sales-weighted rates used to translate the consolidated income statements and consolidated statements of cash flows	2019	2018	Change %
1 USD	0.99	0.98	1
1 EUR	1.11	1.15	-3
1 BRL	0.25	0.27	-7
1 CNY	0.14	0.15	-7
100 INR	1.41	1.43	-1
100 JPY	0.91	0.89	2

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CLARIANT – WHAT IS PRECIOUS TO YOU?

Clariant is a focused and innovative specialty chemical company, based in Muttenz near Basel/Switzerland. On 31 December 2019, the company employed a total workforce of 17 223. In the financial year 2019, Clariant recorded sales of CHF 4.399 billion for its continuing businesses.

Clariant's corporate strategy is based on five pillars: focus on innovation and R&D, add value with sustainability, reposition portfolio, intensify growth, and increase profitability.

The company reports in three Business Areas: Care Chemicals, Catalysis, and Natural Resources.

www.clariant.com

Calendar of Corporate Events

30 March 2020	Annual General Meeting
30 April 2020	First Quarter 2020 Reporting
30 July 2020	First Half Year 2020 Reporting
29 October 2020	Nine Months 2020 Reporting

Your Clariant Contacts**Investor Relations**

Maria Ivek	Tel. +41 61 469 63 73
Alexander Kamb	Tel. +41 61 469 63 73

Media Relations

Jochen Dubiel	Tel. +41 61 469 63 63
Thijs Bouwens	Tel. +41 61 469 63 63

Disclaimer

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