



Exactly your chemistry.

*Launching  
World-Class Performance*  
**Annual Report 2006**

## >> THUMBNAIL SKETCH

Clariant is a global leader in the field of specialty chemicals. Strong business relationships, commitment to outstanding service and wide-ranging application know-how make Clariant a preferred partner for its customers.

Clariant, which is represented on five continents with over 100 group companies, employs around 21 500 people. Headquartered in Muttens near Basel, Switzerland, it generated sales of around CHF 8.1 billion in 2006.

Clariant's businesses are organized in four divisions: Textile, Leather & Paper Chemicals, Pigments & Additives, Masterbatches and Functional Chemicals.

Clariant is committed to sustainable growth springing from its own innovative strength. Clariant's innovative products play a key role in its customers' manufacturing and treatment processes or else add value to their end products.

The company's success is based on the know-how of its people and their ability to identify new customer needs at an early stage and to work together with customers to develop innovative, efficient solutions. Clariant – Exactly your chemistry.



## >> PIONEER IN PACKAGING

"More of a glossy lemon effect? Or how about a light maize-like shimmer instead?" For a Clariant Masterbatches Division consultant, who provides advice on the colors, properties and surface effects of plastics for packaging and consumer articles, questions like these are routine. With hundreds of color and surface samples to choose from as well as cutting-edge CAD simulation technology at his disposal, an answer is always close at hand. Clariant's pool of knowledge regarding color effects, manufacturing processes and the latest design trends is a dream for any potential product designer – a service that is quite simply



best in class, helping you save both time and money. If you need any more emphatic testimony to Clariant's wealth of expertise, look no further than what is a roll call of successful global brands that have become synonymous for entire lines of products.

TEXTILE, LEATHER & PAPER CHEMICALS

Textile  
Leather  
Paper

PROFILE

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

MARKETS

Clothing, home textiles, technical textiles, garment leather, automotive leather, paper, packaging, construction

PRODUCTS AND SERVICES

UV absorbers, fluorochemicals, paper dyes (Cartasol®), disperse dyes (Foron®), reactive dyes (Drimarene®), optical brighteners, and water-, oil- and dirt-repellent equipment

PIGMENTS & ADDITIVES

Coating  
Plastic  
Printing  
Specialties

PROFILE

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

MARKETS

Paints, lacquers, coatings, plastics, automotive industry

PRODUCTS AND SERVICES

Hostaperm® pigments, PV Fast®, Graphtol®, Novoperm® pigments, Reflex Blue® grades, Exolith®, Ceridust®, Licocene®, DPP pigments, aluminum paints

## MASTERBATCHES

### Plastics Processing

#### PROFILE

The division supplies color and additive concentrates and special mixtures of these components. The combination of a worldwide presence and strong local partnerships makes Clariant a preferred supplier for plastics processors and the textile industry. At the local level, each of the division's 55 production plants provides a complete technical service for all products and applications.

#### MARKETS

Automotive, textile and technical fibers, electronic and electrical devices, home appliances, toys, medical devices, sporting goods, packaging

#### PRODUCTS AND SERVICES

Cesa®, Hydrocerol®, Remafin®, Renol®, Omnicolor®, Color-Works™

## FUNCTIONAL CHEMICALS

Detergents  
Performance Chemicals  
Process Chemicals

#### PROFILE

The division's products are based on surfactants and polymers. The key products are products for the oil industry and high-quality raw materials for detergents and cosmetics, combined with comprehensive services. The Detergents Business, which offers anionic, cationic and special non-ionic surfactants as well as bleach activators, is a global partner to the detergent industry. Performance Chemicals, spread across the division's entire product range, supplies such different industries as personal care, crop protection, paints and coatings, plastics, construction chemicals as well as the pharmaceutical industry. The Process Chemicals Business markets products and services for the production and refining of oil and natural gas. It also supplies products for the metal-working, polyester, mining chemical, aviation, heating and cooling and the automotive industry. Custom Manufacturing develops and supplies intermediates and active ingredients used in crop-protection agents. In addition, it supplies raw materials and building blocks for pharmaceuticals, polymers, photochemicals and other industrial fine chemicals.

#### MARKETS

Detergents, rinses and cleaners, personal care products, deicing products for the aviation industry, automotive and machine tools, crop protection, paints and coatings, plastics, polyester, high performance polymers, construction, oil and gas production and refining, fuel additives, mining, pharmaceutical industry, heating and cooling fluids and chemical industry.

#### PRODUCTS AND SERVICES

Anionic, nonionic and cationic surfactants (Genapol®, Hostapur SAS®, Emulsogen®, Präpagen®, Genamin®), polymers and preservatives, Safewing®, Safeway®, Dodiflow®, Dodiwax®, Dissolvan®, Peractive®, Antifrogen®, Genantin®, Genosorb®, pharmaceutical and agrochemical precursors and building blocks, polymer raw materials, additives for films, papers and coatings

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Report



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## FURTHER SALES GROWTH

Organic sales up 7% in Swiss francs; organic growth of 5%

## IMPROVED RESULT

EBIT before exceptionals rose by 11%;

EBIT margin up to 7.3% from 6.9%

## CONSISTENT MARKET PERFORMANCE

Selling prices stable with raw material and energy costs remaining at high levels

Key figures		2006	2005 <sup>1</sup>
Divisional sales with third parties	CHF mn	8 100	7 728
Operating income/loss before restructuring, impairment and disposals		592	533
Net income/loss of the Group		- 78	192
Total assets		7 188	7 180
Capital and reserves		2 433	2 591
Investment in property, plant and equipment		358	348
Research and development		207	197
Staff costs		1 917	1 952
Staff (at year-end)	number	21 748	22 132
Earnings/loss per share	CHF	- 0.37	0.81
Distribution per share	CHF	0.25	0.25

<sup>1</sup> Restated for discontinuing operations

## SOLID QUARTERLY RESULT

Solid fourth quarter with 3% organic growth year on year

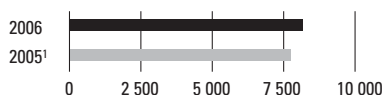
## STABLE DIVIDEND

Unchanged payout of CHF 0.25 per share via par-value reduction proposed

## ON THE RIGHT TRACK

Positive outlook for 2007; in line with strategic goals

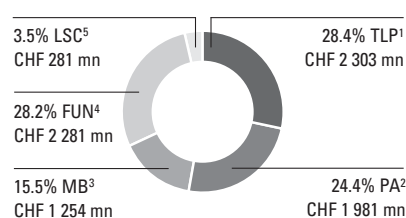
**Sales trend**  
CHF mn



<sup>1</sup> Restated for discontinuing operations

**Sales by division**

Total 2006: CHF 8 100 mn



<sup>1</sup> Textile, Leather & Paper Chemicals

<sup>2</sup> Pigments & Additives

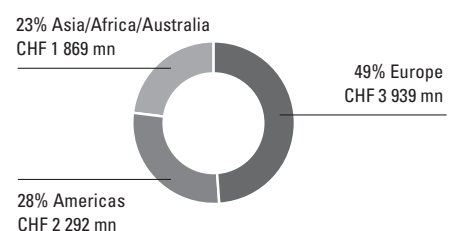
<sup>3</sup> Masterbatches

<sup>4</sup> Functional Chemicals

<sup>5</sup> Life Science Chemicals

**Sales by region**

Total 2006: CHF 8 100 mn



# INFORMATION FOR SHAREHOLDERS

**DEAR SHAREHOLDER,  
DEAR MADAM, DEAR SIR,**

Clariant continued to grow in 2006 benefiting from favorable market conditions with strong demand from our customers all over the world. Sales in Swiss francs from continuing operations came to CHF 8 100 million, a 7 percent organic growth compared to the year before. The operating income before exceptionals rose by 11 percent to CHF 592 million and the operating income improved from 6.9 percent to 7.3 percent. Despite the improvement, we missed our original target for the operating income. The results were significantly impacted by an unexpected steady rise in raw materials, energy and logistics costs, while average selling prices remained stable.

**NET INCOME AFFECTED BY IMPAIRMENT CHARGE**

Net income from continuing operations fell to CHF 131 million from CHF 262 million, mainly impacted by an impairment charge of CHF 100 million in the leather business. Including discontinued operations – Pharmaceutical Fine Chemicals and Custom Manufacturing – the company posted a net loss of CHF 78 million compared to a net income of CHF 192 million a year earlier.

Although operating cash flow improved to CHF 284 million, it failed to reach the value targeted. Only by maintaining a sharp focus on cash flow we will be able to implement the necessary measures and boost performance.

Based on these full-year results, the Board of Directors will propose to the 12 Annual General Meeting on April 2, 2007, a payout of CHF 0.25 per share by reducing par value from CHF 4.50 to CHF 4.25. The proposed payout remains unchanged from the previous year.

**ON A FIRM FINANCIAL FOOTING**

Clariant remains on a firm financial footing with a solid balance sheet. The gearing, which expresses net debt as a percentage of equity, is at 64 percent, the equity ratio at 34 percent.

In April 2006, Clariant successfully launched a EUR 600 million bond. The seven-year bond serves as a basis for the long-term refinancing of the company's debts.

**PRESENCE IN FAST-GROWING MARKETS EXPANDED**

Last year, Clariant expanded its presence in fast-growing markets, and strengthened its customer-oriented approach. In Hangzhou, China, for example, a new joint-venture plant was commissioned in summer 2006 to produce high-performance pigments. As a result, these pigments meeting higher requirements can now be supplied

not only to international customers but for the first time to local markets too. In India, we combined the strengths of the various subsidiaries by merging them into the new Clariant Chemicals (India). The company can now better respond to the customer's needs in the rapidly growing Indian market.

Other powerful examples of our ability to quickly adapt changes in the markets are the recent conversion of a dyestuffs plant in the US to produce optical brightening agents and thereby meet the significantly increased domestic customer demand. Or the further focusing of the textiles product portfolio not just to improve operational efficiency and reduce costs but enabling us to optimize the technical service to customers by becoming more selective.

In Shanghai we started building service labs for personal care applications in order to benefit from the Chinese middle class increasingly spending on higher-quality consumer products which contain more of our value-added products. We also plan further investments to build up sufficient local manufacturing capabilities.

In the design capital Milan, the company opened the latest Color-Works™ Design Center, which offers a combination of inspiration, creativity and technical expertise. The center allows designers, manufacturers and traders of plastic products to dive into a completely new world of unlimited possibilities in the color design of masterbatches. Similar design centers include places like New York, Singapore and São Paulo.

In line with our strategy of strengthening fast-growing, service-driven businesses through acquisitions that supplement our portfolio, we acquired Ciba Specialty Chemicals' masterbatches business, thereby further expanding our leading global position in color and additive concentrates for plastic products.

In 2006 we continued to focus the portfolio on core businesses, selling the Pharmaceutical Fine Chemicals Business to a private investor and initiating the process of selling the Custom Manufacturing Business. The remaining operations of the Life Science Chemicals Division, which closed at the end of 2006, have been integrated into the Functional Chemicals Division.

**HEADING IN THE RIGHT DIRECTION,  
BUT NOT YET WHERE WE WANT TO BE**

2006 was a groundbreaking year for Clariant's future too. The changes under way in specialty chemicals and the increased pressure on costs called for a detailed review of our strategy, organizational efficiency, portfolio and operating practices. In carrying out this