



Clariant Annual Report 2007



Exactly your chemistry.

Company Profile

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.

Our company is committed to sustainable growth. We are represented on five continents by more than 100 Group companies, employing more than 20,000 people. Headquartered in Muttentz near Basel, Switzerland, Clariant generated sales of more than CHF 8.5 billion in 2007.

From vibrant colors in luxury goods, to less-visible additives that enhance the value of industrial and consumer products, our products play a key role in our customers' manufacturing and treatment processes. Clariant's success is based on the expertise of its people, their ability to identify new customer needs at an early stage, and an enthusiasm to work together with customers to develop creative, efficient solutions.

Clariant's businesses are organized in four divisions:

› Textile, Leather & Paper Chemicals

The three businesses of the Division TLP are passionate about fashion, leather, and paper, and provide functionality and aesthetics for more quality of life.

Our Textile Business supplies chemicals and dyes to enhance the properties of clothing and textiles in applications as diverse as high fashion, construction, and fabrics for the home.

Whether it's the high-tech material you choose for your car seats, shoes, bags, or fashionable clothes that define you as an individual, our Leather Business is dedicated to enhancing the comfort that this versatile natural product brings to your life.

With our broad range of innovative chemicals and colorants, Clariant's Paper Business gives strength to cardboard, texture to luxury packaging, whiteness to stationery, color to napkins, and longer life to laminated paper.

› Pigments & Additives

We supply high-quality organic colorants that bring paint, coatings, inks and plastics to life, and additives to protect them from the effects of light, weather and heat. We develop non-halogenated flame retardants, used in protective coatings, resins, thermoplastics and polyester fibers. The Pigments & Additives Division's portfolio also includes high-performance waxes for use across a broad range of special industrial and

domestic applications. These 'designer' waxes can be tailored to meet exacting property profiles, including viscosity, melt temperature and hardness. We manufacture more than 2,000 different products in 19 countries for 12,000 customers in more than 120 countries. You could say we know the business. In fact, we invented a lot of it as well.

› Masterbatches

Clariant Masterbatches is the global leader in color and additive concentrates and performance solutions for the plastics industry, with strong positions in packaging, consumer goods, automotive and fiber. Recognizing that proximity and speed to market are key success factors, the Division operates 54 manufacturing facilities in 33 countries. Fully 80% of its customers are within 400 kilometers of a production plant.

› Functional Chemicals

Our portfolio, based on surfactants and polymers, makes Clariant the ideal partner to deliver a broad range of high-performance products, raw materials and services to an equally diverse list of industries. We provide key, high-quality products and services for the oil and gas industry, as well as raw materials for detergent and cosmetics. We also serve the following sectors: automotive, metalworking, crop protection, paint, plastics, construction, mining, aviation, pharmaceuticals, and chemicals.

Financial Summary

KEY FIGURES

	2007	2006
	CHF millions	CHF millions
Sales ¹	8,533	8,100
Operating income/loss before restructuring, impairment and disposals ¹	539	592
Net Group income/loss	5	-78
Operating cash flow ²	540	328
Total assets	7,285	7,188
Total shareholders' equity capital and reserves	2,372	2,433
Investment in property, plant and equipment	312	358
Staff costs ³	1,930	1,817
R & D costs	211	207
Earnings/loss per share	CHF -0.01	-0.37
Distribution per share	CHF 0.25 ⁴	0.25

¹ Continuing operations

³ Staff numbers: **20,931 (2007)**, 21,748 (2006 continuing)

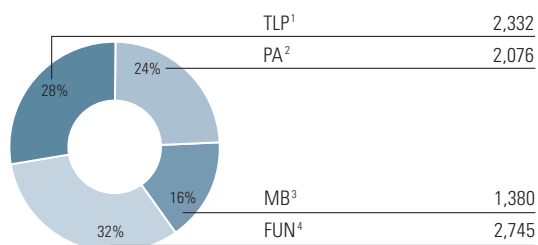
² 2006 restated

⁴ Projected

SALES BY DIVISION

CHF millions

Total 2007: 8,533



¹ Textile, Leather & Paper Chemicals

³ Masterbatches

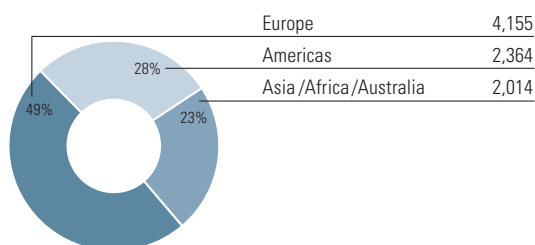
² Pigments & Additives

⁴ Functional Chemicals

SALES BY REGION

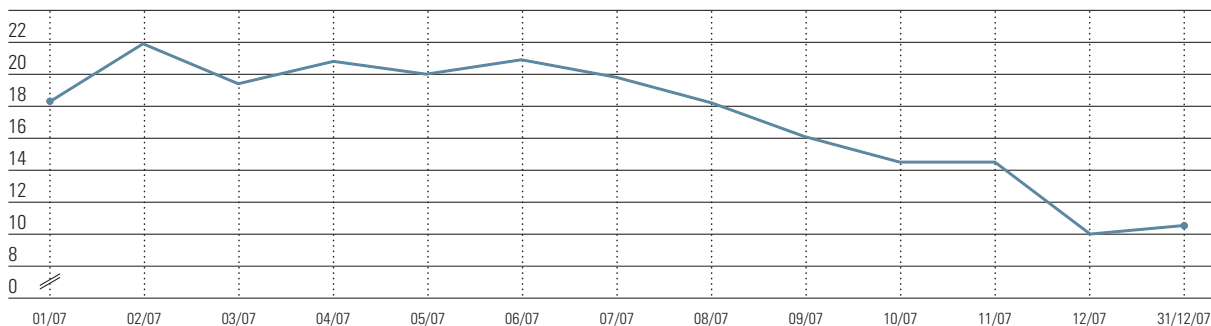
CHF millions

Total 2007: 8,533



SHAREPRICE DEVELOPMENT from 1.1.2007 till 31.12.2007

Share Price in CHF



Healthy sales growth:

Sales up 4 percent in local currency and 5 percent in Swiss Francs

Price increases progressing:

Prices up more than 1 percent with momentum increasing towards year end

Disappointing profitability:

Operating income before exceptionals reached CHF 539 million on continuing business, strongly impacted by continuously rising raw material and energy costs, as well as unfavorable currency effects

Net income at break-even:

Net income before minorities at CHF 5 million

Improved Cash Flow:

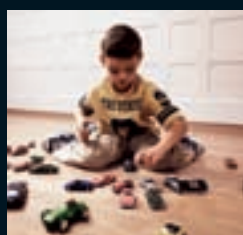
Operating cash flow significantly improved to CHF 540 million from CHF 328 million in 2006

Momentum built on Operational Performance:

- › Sales, General and Administrative (SG & A) costs down to 20.8 percent from 21.3 percent in 2006
- › Site network restructuring on track
- › Restructuring and impairment costs: CHF 262 million, in line with expectations
- › Transformation of Clariant 2010 strategy into divisional action plans complete
- › Strong focus on performance culture with changes in management

Dividend unchanged from 2006:

Proposal of CHF 0.25 per share, achieved by reducing nominal value from CHF 4.25 to CHF 4.00



What do *you* need?

A commitment to service is an integral part of the Clariant culture. In posing the question: "What do *you* need?" our long-term advertising concept points the reader to Clariant's service orientation and innovation strength as the solution.

The bold pictures on the cover and in the report are derived from the current campaign, a visual echo of our strengths: to conceive new ideas, invent the unconventional, and develop the optimum solution, consistently in alignment with each customer's needs.

For more information about Clariant's advertising campaigns, please visit www.clariant.com

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“In 2007 we have laid the foundation for improved profitability.”

DEAR SHAREHOLDERS,

For Clariant, 2007 was marked by both positive and negative developments. We have progressed in implementing some key elements of our Clariant 2010 strategy and significantly improved our cash flow. By the same token, operational profitability was considerably below our expectations. As a result of continuously increasing raw material and energy costs on the one hand, and too slow of an uptake of our price increases on the other, margins dropped sharply. In addition, unfavorable currency effects negatively impacted our results. As a consequence, in 2008 Clariant will strongly focus on achieving further cost reductions and price increases in order to improve profitability. We will also more actively manage our portfolio.

In 2007 demand for Clariant products was robust, with different trends in individual businesses and regions. Our company registered healthy sales growth. Sales from continuing operations were up 5 percent in Swiss Francs (4 percent in local currencies) to reach CHF 8.5 billion.

The operating margin contracted to 6.3 percent from 7.3 percent a year earlier. Operating profit before exceptionals came to CHF 539 million. Although we were able to raise our prices overall by 1 percent, this was not enough to offset higher raw material and energy costs. Masterbatches was the only division that could fully compensate for the increase in raw material costs by raising prices. The appreciation of the Euro against other major currencies was another unfavorable development. It negatively impacted our profitability by nearly CHF 70 million.

We have achieved initial gains to cut SG&A costs (Sales, General and Administrative), which we reduced to 20.8 percent of sales, compared with last year's figure of 21.3 percent. In addition, we proceeded with the reduction of our site network according to plan. We have already closed nine smaller facilities and initiated the closure of three medium-sized facilities in November. We also made good progress in reducing complexity by pruning our product portfolio by 20 percent – almost reaching the 25 percent target defined in our Clariant 2010 strategy.

In line with projections, restructuring and impairment costs amounted to CHF 262 million. Net result reached CHF 5 million, compared with the previous year's loss of CHF 78 million.

Cash flow from operating activities significantly increased over the same period last year to reach CHF 540 million. This success can be mainly attributed to a substantially lower net working capital, brought about largely by sustainable inventory reduction and good progress in managing our trade receivables.

In order to sharpen our profitability focus in 2008 and beyond, as well as achieve better performance and higher accountability at all management levels, we decided to evolve our structure with effect from January 1, 2008, and to delegate more responsibility and accountability for operational results to the divisions' regional levels.

Clariant built on its strong emphasis on people management in 2007. The Clariant Academy has been effective by training about 1850 sales managers in Value-Based Selling, our approach to achieve better prices with customers, based on greater added value. The Clariant Academy also conducted several other management training and development programs.

We also committed ourselves to performance orientation and performance management by recognizing individual achievements, and draw the consequences where the performance is below our expectations.

The transformation of the Clariant 2010 strategy into divisional action plans in Pigments & Additives, Functional Chemicals and Textile, Leather & Paper Chemicals was finalized in the last quarter of 2007 and ready for implementation as from January 1, 2008. All three divisions are pursuing cost leadership strategies in order to achieve competitive positions in the respective market segments. Furthermore, these strategies will focus on enabling a strict separation between product-driven, more commoditized business on the one hand, and service-driven business on the other. In this latter sector, customers are prepared to pay higher prices for greater added value. The separation will enable us to provide product-driven businesses with low cost structures and service-driven businesses offering value-adding services to our customers still with competitive cost and management structures.

By separating product-driven from service-driven businesses, we are placing the divisions in a position where they will be able to tailor their portfolios strategically. Product-driven businesses will be managed for cash. Service-driven businesses will be managed for profitable



from left to right:

JAN SECHER
Chief Executive Officer

ROLAND LÖSSER
Chairman of the Board
of Directors

growth where Clariant finds itself in a leadership position. In each business, we will actively manage our portfolio and strive for the most value-generating solutions.

Clariant remains on a firm financial footing with a solid balance sheet. The gearing, which expresses net debt as percentage of equity, was at 57 percent, the equity ratio at 33 percent.

Based on these full-year results, at the 13th Annual General Meeting on April 10, 2008, the Board of Directors will propose a payout of CHF 0.25 per share by reducing nominal value from CHF 4.25 to CHF 4.00. The proposed payout remains unchanged from the previous year.

We want to sincerely thank our employees for their contributions and efforts in 2007. We are well aware that their commitment builds the foundation for the company's success.

Against a backdrop of an increasingly uncertain global macro economic outlook, our focus during the coming year will be on the continuing implementation of

price increases and cost leadership which will help offset expected further increases in raw material and energy costs. With the benefits of the operational performance improvements, already underway, we expect to show improving operating margins and continuing strong cash flow from operations in 2008.

We remain confident that we will achieve our strategic goal of an above industry-average ROIC by 2010.

Sincerely,

Jan Secher
Chief Executive Officer

Roland Lösser
Chairman of the
Board of Directors



BOARD OF MANAGEMENT from left to right:

SIEGFRIED FISCHER Head of Functional Chemicals Division, **DOMINIK VON BERTRAB** Head of Masterbatches Division, **OKKE KOO** Head of Pigments & Additives Division, **JAN SECHER** Chief Executive Officer, **PETER BRANDENBERG** Head of Textile, Leather & Paper Chemicals Division, **JOHANN STEINER** Head of Group Human Resources, **PATRICK JANY** Chief Financial Officer

2007 was a challenging year for Clariant. However, we remain confident in the future. We have a strong plan and have met key milestones in the first year of its implementation. We are addressing the issue of declining gross margins head on. Our pricing efforts have started to bear fruit, and are expected to continue to do so throughout 2008. Our entire organization is committed to operational excellence.

We are convinced that in 2007 we have laid the foundation to improve our profitability in the year to come, and to realize our Clariant 2010 goal of an above industry-average ROIC in the next three years.

Group Strategy: “Building on our strengths, focusing on execution.”

- WE WILL BECOME A WORLD-CLASS PERFORMER IN OUR INDUSTRY, FOCUSING ON COLORS, SURFACES AND PERFORMANCE CHEMICALS
- WE ARE COMMITTED TO CREATING VALUE FOR INVESTORS, CUSTOMERS AND EMPLOYEES THROUGH CONSTANT INNOVATION, EFFICIENCY AND FLEXIBILITY, ACHIEVING AN ABOVE INDUSTRY-AVERAGE RETURN ON INVESTED CAPITAL (ROIC) BY 2010
- WE WILL ACHIEVE OUR GOALS BY FOSTERING A CULTURE OF HIGH PERFORMANCE, ABSOLUTE ACCOUNTABILITY AND ENTREPRENEURSHIP

The Clariant 2010 strategy comprises three building blocks:

1. BUSINESS PORTFOLIO		➤ Actively manage the portfolio
2. BUSINESS STRUCTURE		➤ Leverage difference between product- and service-driven business
3. OPERATIONAL EXCELLENCE	PROFIT DRIVERS	<ul style="list-style-type: none"> ➤ Increase prices based on our added value ➤ Simplify production network and product range ➤ Reduce costs aggressively
	GROWTH DRIVERS	<ul style="list-style-type: none"> ➤ Invest in service-driven segments ➤ Increase presence in fast-growing regions ➤ Build on our innovation capabilities
	PEOPLE	<ul style="list-style-type: none"> ➤ Create a culture of high performance and accountability ➤ Foster leadership and entrepreneurial behavior

OPERATIONAL EXCELLENCE

Launching its 2010 strategy in November 2006, Clariant identified a range of operational opportunities. Sales, General and Administration (SG & A) costs and net working capital were high compared to industry peers. The number of products had reached approximately 50,000 (excluding Master-batches), creating organizational complexity and supply chain management issues. The site network required further restructuring. And, in the context of rising raw material and energy costs, the need for pricing improvement and product pruning across the board was clear. To address these operational issues, Clariant prioritized its efforts in 2007 on reducing SG & A costs, decreasing net working capital and increasing prices.

SG & A costs have decreased to 20.8 percent of sales from 21.3 percent of sales in 2006. The company's cash flow grew by more than 60% compared to the previous year, driven by a strong focus on inventory management.

To capture further value from products and services, Clariant launched its Value-Based Selling initiative. All 1,850 sales and marketing employees have participated in the program, resulting in a strong and increasing pricing momentum in Q3 and Q4. To compensate for rising raw material costs, further price increases were announced in December 2007. At the end of 2007 Clariant also launched PRIMA, a global pricing guidance and analysis tool to improve pricing transparency that will enable us to manage the profitability of each product by each customer.