Clariant

Clariant Annual Report 2008

Exactly your chemistry.

FINANCIAL SUMMARY

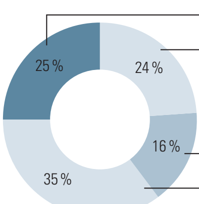
KEY FIGURES	***2008***	*2007*
	CHF mn	CHF mn
Sales[1]	8 071	8 533
Operating income before restructuring, impairment and disposals[1]	530	539
Net Group loss/income before minorities	–37	5
Operating cash flow	391	540
Total assets	5 946	7 285
Total Equity including minorities	1 987	2 372
Investment in property, plant and equipment	270	312
Staff costs[1, 2]	1 759	1 930
R&D costs[1]	184	211
Basic earnings per share CHF	–0.20	–0.01
Distribution per share CHF	0.00	0.25

[1] Continuing operations
[2] Staff numbers: 20 102 (2008), 20 931 (2007 continuing)

SALES BY DIVISION

CHF mn

Total 2008: 8 071



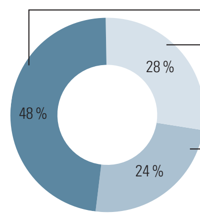
TLP[1]	2 020
PA[2]	1 948
MB[3]	1 278
FUN[4]	2 825

[1] Textile, Leather & Paper Chemicals
[2] Pigments & Additives
[3] Masterbatches
[4] Functional Chemicals

SALES BY REGION

CHF mn

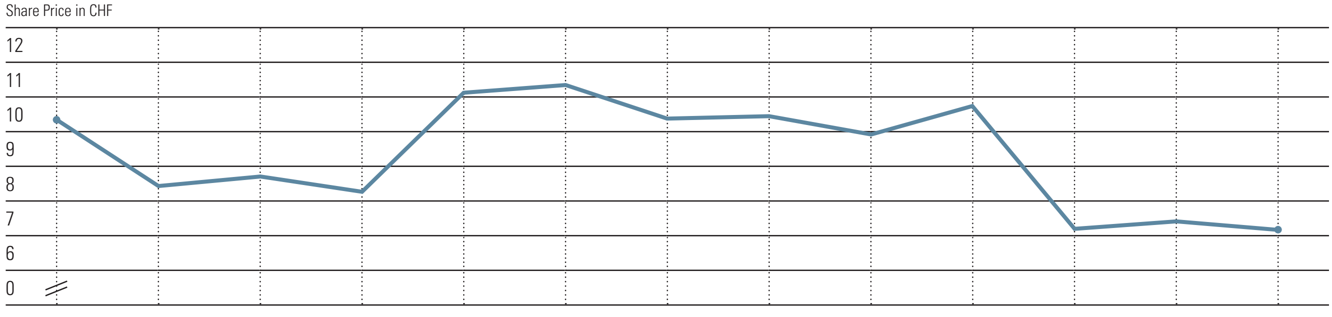
Total 2008: 8 071



Europe	3 861
Americas	2 255
Asia/Africa/Australia	1 955

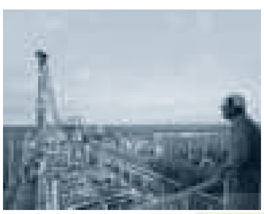
SHARE PRICE DEVELOPMENT *from 1.1.2008 till 31.12.2008*

Share Price in CHF



COMPANY PROFILE

Clariant is a world leader in specialty chemicals. Combining excellence in chemistry with high international standards and global reach, we can provide our customers with consistent quality wherever they are located. Headquartered in Muttenz near Basel, Switzerland, we are represented on five continents by more than 100 Group companies, employing more than 20 000 people. In 2008, we generated sales of approximately CHF 8.1 billion. Our businesses are organized into four divisions:



MASTERBATCHES

Clariant's Masterbatches Division (MB) is a world leader in color and additive concentrates and performance solutions for the plastics industry. Our global reach and unrivaled color-matching competencies combine with superior service to reduce customer costs and time to market. Our solution-driven, creative and technical resources help manufacturers – from consumer goods, to packaging, to medical devices – take advantage of color and additive masterbatches to increase consumer appeal and enhance product performance. Our unparalleled international presence and extensive local production capabilities deliver demonstrable value to a dynamic, global marketplace.

PIGMENTS & ADDITIVES

Clariant's Pigments & Additives Division (PA) is one of the world's leading providers of colorants for coatings, plastics and a key player in the global additives market. Whether developing long-lasting color pigments for automobiles, buildings, photographs, or manufacturing cutting-edge waxes for industrial appliances, we consistently demonstrate a commitment to quality, safety, sustainability and value. We set ourselves apart from the competition by combining a wide range of products with value-added expertise in fields such as global regulatory legislation.

TEXTILE, LEATHER & PAPER CHEMICALS

Clariant's Textile, Leather & Paper Chemicals Division (TLP) delivers chemical solutions to sectors as diverse as fashion, packaging and automotive. From the cutting-edge material used to manufacture car seats, to paper-brightening enhancers, and an evolving dyestuff range which matches latest color trends, our solutions make a subtle yet significant impact on the everyday lives of people wherever they are. An industry leader and a partner to our many global, brand name customers, we ensure high quality and complete consistency across all markets.

FUNCTIONAL CHEMICALS

With a portfolio based on surfactants, glyoxal derivatives, polymers and other specialties, Clariant's Functional Chemicals Division (FUN) delivers a broad range of high-performance products and services to a diverse range of industries including; agrochemicals, automotive, aviation, coatings, home and personal care, pharmaceuticals and paints. With a dedicated organization Clariant combines market-leading chemical expertise with tailor-made service to meet the needs of the oil, gas and mining industries. Whether working with an oil company to prevent corrosion of pipes in deep-water oil production, collaborating with a detergent manufacturer to create a highly effective washing powder or supplying airports with de-icers to keep aircraft and airports operational during winter, we are a trusted partner for customers whatever their business.

In the face of *raw material price volatility and the global economic slowdown in 2008, we improved our operational margin and delivered a solid cash flow. We face no maturities until 2011. However, our performance lags behind many of our peers. Hence we will accelerate our restructuring efforts, drive down costs and "right-size" ourselves for declining demand.*

This is how we will meet the expectations of our stakeholders and the demands of the marketplace.

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Moving forward, we will accelerate our restructuring efforts and focus on operational excellence.

ANNUAL REVIEW

DEAR SHAREHOLDERS,

Our company achieved an improved operational margin and a solid operating cash flow in 2008 against the backdrop of a steep decline in demand in the last quarter. However, our performance is still lagging behind many of our peers – a position that poses a particular threat to us in the worst and most unpredictable economic environment the industry has seen for decades. Hence, we will accelerate our restructuring efforts in order to catch up with our competitors while at the same time making adjustments for declining demand in our markets.

During 2008, sales amounted to approximately CHF 8.1 billion, which translates into a 1 percent growth in local currencies and a decline of 5 percent in CHF. The economic downturn hit the majority of our major markets and orders declined dramatically towards year-end.

We were able to compensate for the rise in raw material costs in the first nine months of 2008 by a full year-price increase of 7 percent compared to the previous year. However, due to unused capacity utilization created by the low demand towards the end of the year, our gross margin dropped to 28.7 percent from 29.2 percent a year ago. Due to our efforts to reduce Sales and General Administration (SG&A) costs to 20.3 percent from 20.8 percent in 2007, our operating margin before exceptional items improved to 6.6 percent from 6.3 percent in the previous year. Operational income before exceptionals reached CHF 530 million.

Following the deterioration of the leather and textile markets and their uncertain evolution in 2009, Clariant revised the plans for these two businesses, which led to an impairment of CHF 180 million which was booked in Q4 2008.

Our operating cash flow was solid in 2008 and reached CHF 391 million compared to CHF 540 million in the previous year. Net debt went down by 11 percent to CHF 1.2 billion from CHF 1.4 billion. We will not face maturities in capital markets for the next three years as we refinanced all mid- and long-term loans under favorable conditions between April 2006 and July 2008.

Our organization went through two distinct phases during fiscal year 2008. In the first nine months, we continued to benefit from the then stable economic environment. Our focus on improving operational excellence as well as our stringent price-over-volume approach paid off, resulting in improved operational performance. In the fourth quarter, we were significantly impacted by a dramatic decline in demand that led to deteriorating performance. Faced with a high cost base and a pronounced organizational complexity, we saw an obvious need for a leaner and more flexible structure in order to react quickly and appropriately to the unfavorable economic climate and thereby maintain the delivery of high results.

Despite our achievements in 2008 and a very solid balance sheet, we are not satisfied with our current competitive position in the industry. We lag behind our peers in most key performance indicators. In order to react to this unfavorable situation and gain speed and momentum through operational excellence, we have strengthened our Board of Directors by bringing in three new members with expertise in the chemical industry – Dominik Koechlin, Hariolf Kottmann and Carlo Soave. These new members replace Roland Lösser, Kajo Neukirchen and Tony Reis who have retired from the Board. In addition, the Board of Directors appointed Hariolf Kottmann to the position of Chief Executive Officer effective October 2008. The Board is convinced that under the leadership of Hariolf Kottmann, our independent, Switzerland-based company will become a top-performing, sustainably profitable chemical industry player.

Following the Annual General Meeting on April 10, 2008, Jürg Witmer took over from Roland Lösser as chairman. Following a very successful career at Clariant spanning close to four decades, Roland Lösser decided not to stand for re-election for personal reasons. The Board thanks him and the other retired members for their long-lasting support and dedication.

2009 will doubtless be one of the most challenging years in our company's history to date. Many of our markets – most prominently, the U.S. – are in deep recession and unlikely to recover within the immediate future. Adverse economic conditions will impact Asia owing to its dependence on exports. Europe will also suffer from the effects of recession, reducing prospects for some of our key customers in such industries as automotive, plastics and construction. The Middle East and Latin America may show some resilience, but this is unlikely overall to mitigate the negative impact on our top line. In addition, our ability to predict how economic conditions will develop within the next few months or even quarters is very low.

Jürg Witmer
Chairman of the Board of Directors

Hariolf Kottmann
Chief Executive Officer

In this environment, we will adapt our structures to the economic situation by decisively downsizing the company and reducing expenditure – in particular SG&A costs. We will significantly decrease personnel costs and further reduce our workforce by an additional one thousand positions on top of the approximately 2 200 headcount reduction announced in 2006, of which approximately 1 650 have already been realized. In order to finance our restructuring activities, our focus in 2009 will be on cash generation as new loans are either not available or not affordable in the current financial crisis.

In line with our focus on cash generation, the Board of Directors will recommend withholding dividends, grants and other shareholder payouts for 2008. The Board will propose this motion at Clariant's 14th Annual General Assembly to be held on April 2, 2009.

We can neither predict how serious the global economic crisis will be nor how long it will last. However, we are preparing ourselves for challenging times ahead by focusing on cash generation, decreasing costs and reducing complexity.

In order to improve and maintain our profitability, competitive position and customer service, we will introduce LeanSigma continuous improvement processes across the entire company. These processes will also help to safeguard the company against challenging economic developments in the future.

We are aware of the fact that turning Clariant into a top-performing chemical company will be a painful, time-consuming process. We would like to take this opportunity to thank our employees for their outstanding contributions in 2008. Without their dedication and achievements, our company would doubtlessly be in a more critical situation than it is today. And we are counting on their continued commitment during the fiscal year ahead.

Thanks to our global talent and asset base and diversified product portfolio – and through undertaking a rigid process of restructuring – we believe that we can sustainably increase our profitability. We wish to thank our shareholders for their loyalty during this challenging period.

Yours sincerely

Jürg Witmer
Chairman of the Board of Directors

Hariolf Kottmann
Chief Executive Officer

BUSINESS SUMMARY

BUSINESS TRENDS AND ACHIEVEMENTS IN 2008

STRONG CASH FLOW COMPENSATED FOR DIFFICULT TRADING CONDITIONS

- Our operational cash flow reached CHF 391 million despite being negatively impacted by inventories built-up during the first nine months of the year to bridge supply shortages in some raw material markets.

IMPROVED GROSS MARGINS DUE TO ADOPTION OF AN AGGRESSIVE PRICE-OVER-VOLUME STRATEGY AND FOCUS ON COST SAVINGS

- Our operational margin before exceptional items met our target, rising to 6.6 percent from 6.3 percent in 2007.
- We raised our prices by an average of 7 percent, adopting a strong price-over-volume strategy.
- We reduced our SG&A costs from 20.8 percent in 2007 to 20.3 percent in 2008.

SOLID DEBT AND LIQUIDITY POSITION WITH A GREAT MATURITY PROFILE

- Our liquidity position is strong.
- Reduction in debt from CHF 1.4 billion in 2007 to CHF 1.2 billion in 2008.
- Our Group will not face capital market maturities until 2011.

OUTLOOK

SLOWDOWN SET TO CONTINUE INTO 2009

- We are unable to accurately predict how long the slowdown will last and its overall impact on demand in 2009.
- "Right-sizing" the organization to match demand is a high priority.

FOCUS ON CASH FLOW AND COST REDUCTION

- Our clear focus in 2009 will be on generating cash in order to successfully overcome the economic downturn and to finance restructuring.
- We will decisively drive down costs and adapt our structure to match the fall in global demand.