

09



Clariant
Annual Report 2009



Exactly your chemistry.

Summary



In 2009 we focused on generating cash, lowering costs, and reducing complexity in order to close the performance gap with our peers. Our strategic focus is already starting to deliver. However, we must continue to restructure in 2010 to create a strong platform for profitable growth.

Financial Summary

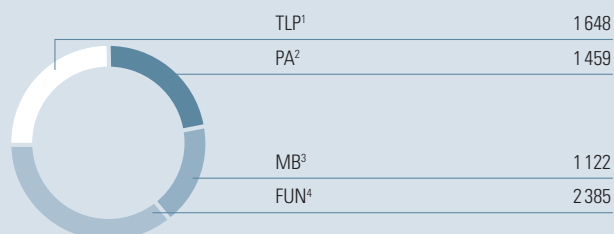
KEY FIGURES	2009	2008
	CHF mn	CHF mn
Sales ¹	6 614	8 071
Operating income before restructuring, impairment and disposals ¹	270	530
Net Group loss before minorities	-194	-37
Operating cash flow	757	391
Total assets	6 092	5 946
Total equity including minorities	1 896	1 987
Investment in property, plant and equipment	135	270
Staff costs ^{1, 2, 3}	1 555	1 690
R&D costs ¹	150	184
Basic earnings per share CHF	-0.91	-0.20
Distribution per share CHF	0.00	0.00

¹ Continuing operations² Staff number: 17 536 (2009)³ Excluding exceptional personnel costs

SALES

CHF mn

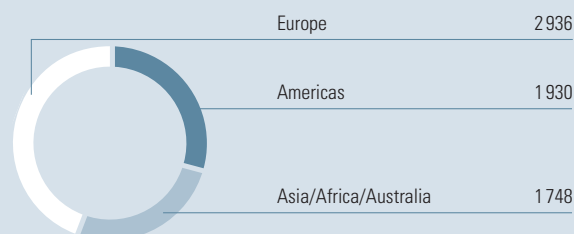
Total 2009: 6 614

¹ Textile, Leather & Paper Chemicals
² Pigments & Additives³ Masterbatches
⁴ Functional Chemicals

SALES BY REGION

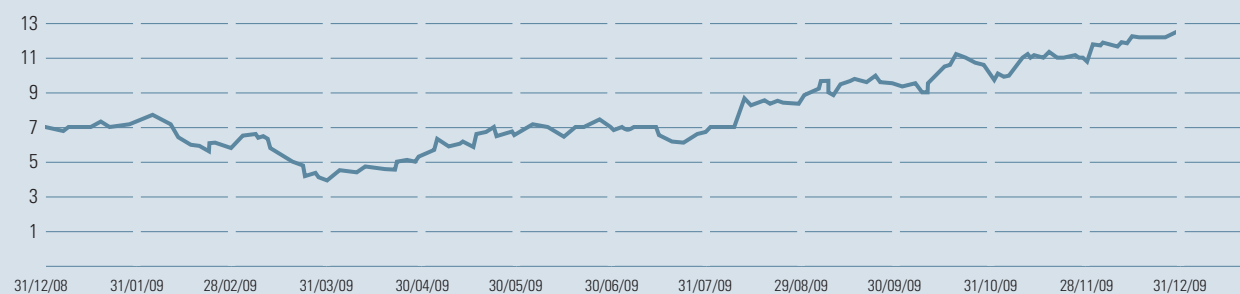
CHF mn

Total 2009: 6 614



SHARE PRICE DEVELOPMENT from 1.1.2009 till 31.12.2009

Share price in CHF



Index

4	<i>Letter to Shareholders</i>
8	<i>Financial Review</i>
18	<i>Strategic Review</i>
26	<i>Corporate Responsibility</i>
32	<i>Corporate Governance</i>
46	<i>Compensation Report</i>
52	<i>Consolidated Financial Statements of the Clariant Group</i>
52	<i>Consolidated balance sheets</i>
53	<i>Consolidated income statements</i>
54	<i>Consolidated statements of comprehensive income</i>
54	<i>Consolidated statement of changes in equity</i>
55	<i>Consolidated statements of cash flows</i>
56	<i>Notes to the consolidated financial statements</i>
111	<i>Report of the statutory auditor</i>
	<i>Review of Trends</i>
112	<i>Five-year Group overview</i>
	<i>Financial Statements of Clariant Ltd, Muttenz</i>
114	<i>Clariant Ltd balance sheets</i>
115	<i>Clariant Ltd income statements</i>
116	<i>Notes to the financial statements of Clariant Ltd</i>
123	<i>Proposed transfer of accumulated losses</i>
124	<i>Report of the statutory auditor</i>
125	<i>Forward-looking statements</i>

Dear Shareholders,

In 2009, we made significant progress in terms of improving our operating performance through stringent cost management and decisive restructuring. In the midst of the most serious economic crisis for decades, we responded to an unprecedented decline in demand by decreasing our costs, adapting our capacity, and significantly reducing our net working capital. As a result, we have built ourselves a solid foundation for coping with the challenges of a demanding year ahead. Although we are satisfied with our accomplishments, we still have a long way to go to make our operating achievements sustainable and close the performance gap with our peers. Consequently, we will continue with our restructuring efforts in 2010 and further improve our cash flow, while decreasing costs and reducing complexity.

Like the rest of the chemical industry, Clariant was strongly hit by the global economic crisis. The demand for our products decreased dramatically in the first half of 2009 and recovered only slightly in the second half of the year. Group sales amounted to approximately CHF 6.6 billion compared to CHF 8.1 billion in 2008. This translates into an 18.1 percent decline in CHF or 13.5 percent in local currencies. The reduced demand spread across all divisions with Pigments & Additives suffering the greatest losses. Functional Chemicals showed some resilience in the first two quarters in particular. From a regional perspective, Latin America and some Asian countries held up remarkably well during the crisis, whereas sales in the more established industrial regions of Europe and North America were adversely affected.

The decline in sales caused significant underutilization of production capacities especially in the first half of the year. We addressed this issue early on through implementing temporary shutdowns, reducing working hours, involuntary vacations, and other measures. At the same time, we continued to focus on offering acceptable prices for our products against the backdrop of fluctuating raw material costs. As a result, we were able to defend our gross margin, which only decreased slightly to 28.2 percent from 28.7 percent in 2008.

As announced, Sales and General & Administration (SG&A) costs were a major focus of our restructuring efforts. In absolute terms, SG&A costs decreased to CHF 1.47 billion from CHF 1.64 billion in 2008. However, due to the lower sales base, SG&A costs in percentage of sales increased to 22.2 percent from 20.3 percent. Consequently, the operating income margin before exceptional items was 4.1 percent compared to 6.6 percent in the previous year.

Restructuring and impairment costs amounted to CHF 298 million. The stringent implementation of our restructuring program resulted in a reduction of job positions to 17 536 from 20 102 at the end of 2008. Our ability to implement these reductions quickly, and at a sufficient scale, was key to the stabilization of our operating performance in the second half of the year following the volume declines in the first two quarters, which adversely impacted our results. However, the necessary restructuring costs also led to a net loss of CHF 194 million.

Our cash flow from operations amounted to CHF 757 million. This significant achievement was due to a strong focus on reducing net working capital – mainly through inventory reduction and accounts receivable management – which came down from 23.8 percent of sales in 2008 to 21.1 percent by the end of 2009. In the second half of the year, the increasingly positive development of our EBIT before exceptional items also bolstered our cash generation.

Excellent cash flow provided Clariant with solid liquidity and a significant reduction of our net debt to CHF 545 million compared to CHF 1 209 million in the previous year. The successful launch of a CHF 300 million convertible bond further strengthened our net debt profile. The company's liquidity reached CHF 1 140 million by the end of the year.

Based on the negative net result and our continuing focus on cash generation, the Board of Directors will recommend withholding dividend, grants, and other shareholder payouts for 2009. The Board will propose this motion at the 15th Annual General Assembly on March 29, 2010.

We look upon the 2009 results as an initial successful step towards transforming Clariant into a high-performance player in the chemical industry. Our clear focus on increasing cash, decreasing costs, and reducing complexity has started to pay off. In 2010, we must continue on this path to make our achievements sustainable.

As such, 2010 will be our second year of restructuring aimed at building the foundation for profitable growth starting in 2011. We will continue to analyze and realize cost savings as decisively as we did in 2009. Addressing our structural production overcapacity and streamlining our production network will lead to additional layoffs.

As of January 1, 2010, we are operating under a new structure. We dissolved our former divisional structure and created ten Business Units, each of which is fully responsible for its internal operations. These Business Units will devote 2010 to a thorough analysis of their business models and cost positions in order to increase their competitiveness and maximize operational performance.

We will also continue with our implementation of LeanSigma processes. Introduced at the end of 2008 and the beginning of 2009, they are increasingly being used in areas beyond production and supply chain to stabilize our processes and make them more cost efficient.

In our view, 2010 will be another extremely challenging year for Clariant. We don't foresee the world economy recovering anytime soon due to lingering structural problems in the financial systems, unresolved global trade issues, overcapacities in major industries, and increasing unemployment rates in industrialized zones. Asia – in particular China – and Latin America will continue to provide positive signs for the world economy. But these glimmers of hope are unlikely to be strong enough to significantly mitigate flat or even negative economic development in Europe and the US.

Based on these predictions, we estimate our sales figures to remain close to 2009 levels. Our continued restructuring measures will improve our cost positions and have a further positive impact on our operational results. Restructuring and impairment costs will be approximately the same as in 2009. Furthermore, we expect our cash flow to remain strong.

We would like to thank our employees for their outstanding efforts in 2009. We especially wish to extend our gratitude to colleagues who had to leave the company as a result of our restructuring program. Our achievements have only been made possible thanks to the dedication and hard work of all our associates.

We would also like to thank our shareholders for their continued loyalty. We fully acknowledge that our program to turn the company around requires time and the patience of all our stakeholders. If we wish to see Clariant become a top performing company in the chemical industry with high prospects for future growth, we must continue with our stringent restructuring and cost control efforts. We have no choice but to finish what we have started.

Yours sincerely



Jürg Witmer

Chairman of the Board of Directors



Hariolf Kottmann

Chief Executive Officer



Jörg Witmer
Chairman of the Board of Directors

Hariolf Kottmann
Chief Executive Officer

"The focus on improving cash flow, decreasing costs, and reducing complexity is bearing fruit. Our goal remains to close the performance gap with our peers."

Financial Review

During 2009 we successfully focused on generating cash, decreasing costs and reducing complexity. In an economic environment that remains challenging, we will continue to focus on our restructuring efforts.

Our aim remains to achieve above industry average profitability by the end of 2010 and to create a solid platform for profitable growth.