

# All in one

Integrated Report  
2017

The Clariant Integrated Report 2017, available in printed and online format, provides an overview of how Clariant creates value in multiple dimensions.

Clariant no longer publishes a separate Sustainability Report. Sustainability information can be found throughout the Integrated Report and in the online GRI Report.

In-depth information on financial results can be found in the online Financial Report and details on governance and compensation are available in the online Corporate Governance Report and the Compensation Report.



THE FOLLOWING REPORTS ARE AVAILABLE ONLINE AND AS PDF FOR DOWNLOAD:

<b>Integrated Report</b> reports.clariant.com	<b>Corporate Governance Report</b> reports.clariant.com/ 2017/corporategovernance	<b>Compensation Report</b> reports.clariant.com/ 2017/compensation	<b>Financial Report</b> reports.clariant.com/ 2017/financialreport	<b>GRI Report</b> reports.clariant.com/ 2017/gri
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All in one. With this report, Clariant wants to take you on a journey of numbers. Behind each number there are successes and failures, lessons learned and experiences, accomplishments and impacts. Clariant wants to tell these stories: where the numbers come from, how they connect, and what impact they have.

In this second annual report published in the form of an Integrated Report, Clariant provides an in-depth view of its holistic approach to creating added value for customers, employees, shareholders, and the environment. According to its three brand values – Performance, People, Planet – Clariant takes financial and non-financial aspects of value creation into account. This is why Clariant shares not just financial figures, but also the numbers that represent the various capitals used and affected: financial, intellectual, manufactured, human, relational, and natural. These numbers highlight Clariant's most precious values, and the stories behind them – all in one.



Performance

FINANCIAL CAPITAL in CHF m		
	2017	2016
Sales	6 377	5 847
EBITDA before exceptionals	974	887
EBITDA margin before exceptional items (%)	15.3	15.2
EBIT before exceptional items	673	622
Net income	302	263
Basic earnings per share (in CHF)	0.84	0.78
Adjusted earnings per share (in CHF)	1.47	1.12
Operating cash flow	428	646
Investment in property, plant and equipment	248	297
Research & Development expenditures	211	206
Growth through innovation (%) <sup>1</sup>	2.5	1.5
Personnel expenditures <sup>2</sup>	1 516	1 435
Raw material procurement	2 674	2 221
Total assets	8 229	8 365
Equity	2 939	2 546
Equity ratio (%)	35.7	30.4
Net debt	1 539	1 540
Gearing ratio (%)	52	60

<sup>1</sup> Contains the contribution to growth from both Top Line Innovation as well as Life Cycle Innovation. Potential cannibalization of existing sales caused by Life Cycle Innovation in certain cases has not been excluded from calculation

<sup>2</sup> Including own employees and external staff

INTELLECTUAL CAPITAL		
	2017	2016
Patents (year end)	6 600	6 500
Active innovation projects	> 370	320
Of which Class 1 Projects with double-digit million sales potential or of strategic relevance	> 65	60
Scientific collaborations	> 125	125

MANUFACTURED CAPITAL		
	2017	2016
Research & Development Centers	8	8
Technical Centers	> 50	> 50
Production sites	125	120 <sup>1</sup>
Countries with production facilities	39	40
Raw materials procured (in m t)	3.14	2.82
Production (in m t)	4.60	4.09

<sup>1</sup> Restated to show all productions sites instead of production sites in performance reporting scope only

People

HUMAN CAPITAL in FTE (Full Time Equivalents)		
	2017	2016
Total staff	18 135	17 442
Employees	10 482	9 881
Of which male	7 264 (69%)	6 734 (68%)
Of which female	3 218 (31%)	3 147 (32%)
Workers	7 653	7 560
Of which male	7 066 (92%)	6 995 (93%)
Of which female	587 (8%)	565 (7%)
Total training hours	192 000	201 884
Training hours (Ø per participant)	20	19
Staff in Research & Development	- 1 100	- 1 100
Lost Time Accident Rate (LTAR: accidents with at least 1 day lost/200 000 work hours)	0.20	0.19

RELATIONSHIP CAPITAL		
	2017	2016
Employee participation in engagement survey	n.a. <sup>1</sup>	11 000
Raw material suppliers	7 000	5 250
Raw material supply base by spend covered by sustainability evaluations (%)	65	63
Survey responses from customer contacts obtained	n.a. <sup>1</sup>	2 693
Customers who want to continue doing business with Clariant (%)	n.a. <sup>1</sup>	91

<sup>1</sup> Surveys are conducted every two years

Planet

NATURAL CAPITAL		
	2017	2016
Total energy consumption (in m kWh)	3 245	2 950
Energy consumption (in kWh/t production)	706	719
Total water consumption (in m m³)	49	48
Total waste water generation (in m m³)	13	13
Total greenhouse gas emissions (scope 1 & 2 CO <sub>2</sub> equivalents) (in m t)	0.97	0.89
Greenhouse gas emissions (scope 1 & 2 CO <sub>2</sub> equivalents) (in kg/t production)	211	218
Total quantity of waste (in thousand t)	198	147

## TRANSFORMING JOURNEYS

32 000

Clariant has received and processed around 32 000 job applications via its new digital HR platform.

→ PAGE 026

## STRATEGIC DIRECTION

131

The materiality matrix was reviewed by 131 external stakeholders. → PAGE 014

## PROMISING RESULTS



&gt;300

More than 300 genes were screened in the labs of the Active Ingredients unit. → PAGE 078

## GROWING AMBITIONS



400

The total size of Clariant's new greenhouse is 400 sqm. → PAGE 046

## BUILDING CONNECTIONS

3

A colleague from India stayed for on-the-job training for three months in the U.S. → PAGE 064

## BOOSTING INNOVATIONS

125

Clariant is part of more than 125 scientific and research partnerships all over the world.

→ PAGE 090

## DELIVERING SOLUTIONS

17

17 Innovation Black Belts manage the Class 1 innovation projects.

→ PAGE 102

## EMPOWERING CHANGE



7

Seven years ago, the last so-called lost-time accident happened at the Tangerang site. → PAGE 150

## DRIVING SUSTAINABILITY

99.9

EnviCat® VOC catalysts will exceed environmental regulations by reaching conversion rates of 99.9%.

→ PAGE 162

## ENSURING TRUST



50

The WHO estimates that 50 % of all medicines available from the internet are fakes. → PAGE 112

## MARKETING ADVANCES

12.3

Marketing Excellence projects led to an added contribution margin of CHF 12.3 million. → PAGE 056



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# Let's Talk Numbers

Numbers tell a story. In this case, it's a story of progress and performance. In 2017 Clariant continued to implement its ambitious strategy for growth. Successfully, as the numbers in this report show. Behind each and every number, however, there are people and even more stories to be told.

# 18 135

**At the end** of 2017, Clariant had a total staff of 18 135, corresponding to an increase of 4 % compared to 2016.

→ **PAGE 138**

# 974

**The EBITDA** before exceptional items in absolute value was CHF 974 million, which corresponds to an increase of 10 % in Swiss francs versus the previous year.

→ **PAGE 120**

# 6 600

**By the end** of 2017, Clariant held 6 600 patents.

→ **PAGE 132**

# 2.5

**Clariant achieved** 2.5 % growth through innovation in 2017.<sup>1</sup>

→ **PAGE 132**

<sup>1</sup> Contains the contribution to growth from both Top Line Innovation as well as Life Cycle Innovation. Potential cannibalization of existing sales caused by Life Cycle Innovation in certain cases has not been excluded from calculation

# 3.2

**Thanks to** its dedicated action to reduce negative climate impacts, Clariant reduced its greenhouse gas emissions by 3.2% in 2017.

→ PAGE 156

# 6 377

**Clariant reported** group sales of CHF 6 377 million in 2017 which reflects 9% growth in local currency and in Swiss francs.

→ PAGE 118

# 515

**Within its** 34 active Marketing Excellence projects, Clariant conducted 515 customer interviews in 2017.

→ PAGE 144

# 1983

**In 2017**, Clariant hired 1983 new employees (571 women and 1412 men) to support its profitable growth strategy.

→ PAGE 139

# 0.2

**Clariant managed** to stabilize the lost time accident rate (LTAR) at a low level of 0.2 days lost per 200 000 hours of work, as compared to 0.19 days lost in 2016.

→ PAGE 142

# 18

**Clariant awarded** 18 products with the EcoTain® label in 2017, underscoring its strong commitment to sustainability.

→ PAGE 133

# »We Continue to Follow our Value Creation Strategy«

**A turbulent 2017 saw Clariant announce plans for a merger only to later abandon them. CEO Hariolf Kottmann and the Chairman of the Board of Directors Rudolf Wehrli discuss what led to these decisions and how Clariant nevertheless stayed the course for growth.**

**Mr. Wehrli, Mr. Kottmann, how did you experience this rather turbulent year?**

**HARIOLF KOTTMANN** At the beginning of 2017, we found ourselves in a challenging situation. A weak oil price and the volatile economic environment were impacting our overall business performance. However, in the course of the year we managed to turn the tables. In the end we actually achieved our 2017 objectives in terms of growth and profitability: we delivered 9% sales growth and an improvement of the absolute EBITDA before exceptional items of 10% to CHF 974 million. Cash flow generation, however, was still lagging behind our own ambition and remains a challenge.

This was, of course, not the only challenge we had to face. Ongoing consolidation in the chemical industry has led to a steady decrease in the number of companies that are of similar size as Clariant. Seeing that companies of this kind are either bought by competitors or deliberately split up in order to sell their individual businesses, we decided to act.

**RUDOLF WEHRLI** Our goal has always been to lead our company into the future without losing its brand, culture, portfolio, and established management team. The best way to achieve this goal is to gain a certain size – size matters in our industry. However, we were neither able nor willing to incur massive debts to make a major acquisition. Therefore, a merger of equals appeared to be the best available option at the time.

**Clariant's intention was to merge with the American chemical company, Huntsman. However, as we all know, your plans failed. How could that happen?**

**RUDOLF WEHRLI** The continued accumulation of Clariant shares by activist investor White Tale Holdings and its opposition to the transaction, caused an increasing uncertainty in the market. Given the fact that less than 60% of the votes are present in an average Annual General Meeting, it became more and more difficult to secure the two-thirds majority shareholder approval that would have been required to approve the transaction under Swiss law. To avoid disruption and further uncertainty, Clariant and Huntsman jointly decided to terminate the merger agreement. By this, we avoided a significant break-up fee and did what we always do: we acted in the best interest of all our shareholders.

**Does that mean a minority shareholder single-handedly decided the fate of the company?**

**HARIOLF KOTTMANN** No, White Tale was our biggest shareholder, but still a minority shareholder; the company was and is run by the Board of Directors and the Executive Committee. We acted decisively when planning the merger with Huntsman, and we acted just as decisively when we abandoned it due to the changed situation. At no time did we stray off our strategic path of value creation. We had several meetings with White Tale with the intention to share our corporate strategy and our vision for the future of Clariant and to listen to their plans. White Tale, however, was not interested in our strategy and did not reveal any plans. Instead, they made several requests, from immediately selling Plastics & Coatings to hiring an additional investment bank and giving them three seats on our Board of Directors. We saw their demands as aimed at one goal only: to break up the company and to



# 974

**Absolute EBITDA** before exceptional items increased by 10% to CHF 974 million.



## **Hariolf Kottmann**

Born in 1955

Chief Executive Officer (CEO) since 1 October 2008

Member of the Board of Directors since 10 April 2008

maximize their own investment. To prevent that from happening, we had to come up with other ideas to create value as it was expected by the financial market.

### **And the idea you came up with was to find a white knight to get rid of the activist investor?**

**HARIOLF KOTTMANN** We have always said that one of Clariant's strategic options was to get another anchor investor. Clariant has been in contact with SABIC for many years. SABIC is not only an important customer, but also a joint venture partner for Clariant. Since the takeover of Süd-Chemie in 2011, we have been closely linked. I already had extensive strategic discussions with SABIC from 2012 through 2014. Due to a change in management, however, they were put on hold for a while. But since then we have been in regular contact again. This dialogue was intensified once we termi-

nated the planned merger with Huntsman. There were many informal discussions and meetings, for example during the GPCA Forum in Dubai at the end of November 2017, to which SABIC's CEO Yousef Abdullah Al-Benyan had invited me as keynote speaker. We were, however, not involved in the acquisition of the shares by SABIC from White Tale. We were simply informed in advance as is usual in such cases. But we opened the door for SABIC early on.

### **What are SABIC's plans? Is the Saudi Arabian company interested in selling parts of the Clariant businesses, too?**

**RUDOLF WEHRLI** We are in intensive talks with our new major shareholder SABIC to identify opportunities to accelerate the implementation of our growth strategy. It's too early to speculate about specific steps. What is

certain is that we share a common understanding of our business. SABIC is not a financial investor; it's a strategic investor. If we were ever to consider divesting from individual parts of our business – such as our strategic currency Plastics & Coatings – we would only do so when we know exactly how to invest the returns.

**HARIOLF KOTTMANN** Absolutely. SABIC and Clariant follow much the same principles. SABIC is a successful, respected and very professionally managed company that places high demands on excellence and profitability. We have a professional and trusting relationship with our new strategic investor and we are confident that SABIC's support will enable us to implement our strategy even faster. Our relationship and our discussions so far are very promising. Nothing changes in our general goals. We want to become even more profitable. We want to become even more innovative. And we want to grow even faster. Clariant today is a strong, innova-

tive and valuable company. That is the result of prudent strategy and hard work. And for that I want to expressively thank all our employees! We have great opportunities to independently and actively develop the company with SABIC and to create sustainable value for all our stakeholders. We want to continue on this path and shape the future of Clariant.

**That sounds like a long-term plan for value creation. What exactly does value creation mean for Clariant?**

**RUDOLF WEHRLI** Most importantly and as before, we want to create value for all our stakeholders – customers, employees, society and of course shareholders. We want to provide jobs for highly motivated and qualified people. We want to offer innovative and sustainable solutions for our customers that help them to master the most urgent challenges of modern society. And we

**Rudolf Wehrli**

Born in 1949

Chairman of the Board of

Directors since 27 March 2012



**The Board of Directors** proposes a dividend of CHF 0.50 to the Annual General Meeting.