09

Exactly your chemistry.

Clariant
Annual Report 2009

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

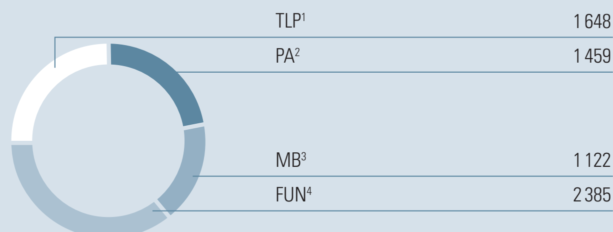
KEY FIGURES	2009	2008
	CHF mn	CHF mn
Sales[1]	6 614	8 071
Operating income before restructuring, impairment and disposals[1]	270	530
Net Group loss before minorities	– 194	– 37
Operating cash flow	757	391
Total assets	6 092	5 946
Total equity including minorities	1 896	1 987
Investment in property, plant 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 operations [2] Staff number: 17 536 (2009) [3] Excluding exceptional personnel costs

SALES

CHF mn

Total 2009: 6 614

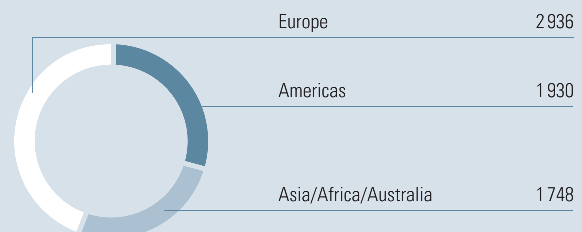


[1] Textile, Leather & Paper Chemicals
[2] Pigments & Additives
[3] Masterbatches
[4] Functional Chemicals

SALES BY REGION

CHF mn

Total 2009: 6 614



SHARE PRICE DEVELOPMENT from 1.1.2009 till 31.12.2009

Share price in CHF

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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

Jürg 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.

Hariolf Kottmann, CEO

Responsibilities:
Legal & Compliance, HR, Communications, Corporate Development, Clariant Excellence

Mathias Lütgendorf

Responsibilities:
Group Procurement Services, Supply Chain, Industrial & Consumer Specialties BU, Textile Chemicals BU, Oil & Mining Services BU, Leather Services BU

Patrick Jany, CFO

Responsibilities:
Financial Services, Treasury, Accounting, Tax, Corporate Controlling, IT, Investor Relations

Christian Kohlpaintner

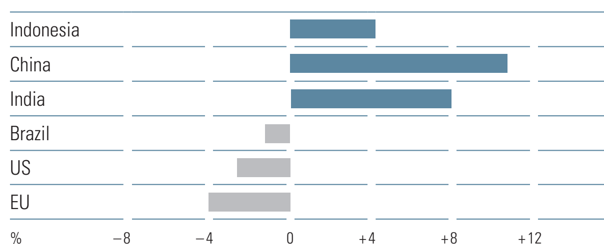
Responsibilities:
Group Technology Services, ESHA, Pigments BU, Masterbatches BU, Performance Chemicals BUs (Paper Specialties, D&I, Additives, Emulsions).

BACKGROUND

At the beginning of 2009, the global economy was already in the midst of the worst economic downturn in decades. The crisis, which originated in the US, spread to Europe and then to the emerging economies. Demand from consumer and industrial sectors, which had plummeted at the end of 2008, only stabilized at lower levels in the second half of the year. During 2009, the gross domestic product (GDP) dropped 2.6 percent in the US and 4.0 percent in Europe. Government stimulus packages contributed to the stabilization of the economy in the second half of the year.

The emerging economies also suffered, albeit to a much lesser extent. Asia, particularly India and Indonesia, and Latin America proved to be the most resilient to the economic crisis. Those countries with strong domestic consumer-oriented markets, driven by the rapidly growing middle class with its purchasing power, were able to partially mitigate the impact of significantly lower exports to Europe and the US. In China, large stimulus packages launched by the government supported manufacturing and infrastructure projects, which in return increased demand, benefiting the entire sector.

GDP TRENDS FOR SELECTED COUNTRIES 2009 VS 2008



Source: Bloomberg (end of September 2009 year-on-year figs)

The specialty chemicals industry, which is closely linked to consumer and industrial end-markets, experienced a dramatic drop in demand in the range of 20–40 percent at the outset of the year. In many areas, production came to a halt. Companies introduced shorter working hours and reduced production capacities as entire plants shut down. Customers de-stocked along the value chain. Only by mid 2009 did demand levels in the industry start to bottom out. In some regions – in particular Asia and Latin America – demand started to accelerate again. Companies that enjoyed a strong presence in those markets, such as Clariant which is one of the largest specialty chemicals companies in Brazil, were able to benefit from this modest recovery towards the end of the year. However, the outlook for the entire industry remains challenging as a sustainable broad-based recovery is not in sight and the industry continues to struggle with overcapacities.

CLARIANT PERFORMANCE

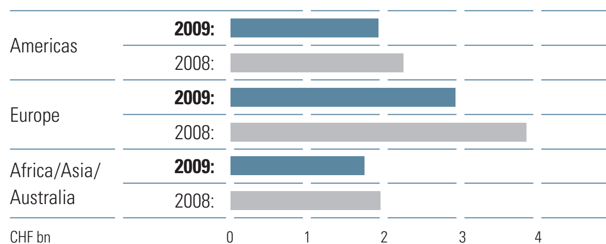
The global economic crisis hit us at a time when our competitive position was already weak. Even without the crisis, we needed to undergo decisive restructuring to generate cash, decrease costs and reduce complexity in order to improve financial performance. In addition, we needed to right-size ourselves for lower demand levels to reduce the impact on our bottom line. Details of these measures are covered on pages 18 to 25 of this report.

SALES, MARGINS AND COSTS

The challenging economic situation led to a significant drop in our sales across all of our businesses. Total sales for 2009 amounted to CHF 6614 million, which represents a decline of 14 percent in local currencies and 18 percent in Swiss francs. At the beginning of the year sales were severely impacted by lower demand levels, resulting in significant capacity under-utilization. However, as the year progressed sales volumes rose and capacity utilization improved quarter-by-quarter. In addition, we chose to reduce our inventories and therefore favored cash generation at the expense of profit.

In local currencies, sales in Latin America have been the most resilient throughout the year. In large markets, such as Brazil and Mexico, the demand for our products across all divisions remained relatively stable. Demand in Asia was hard hit by the economic crisis at the outset of 2009. Demand in China stabilized and recovered only during the second half of the year. In North America and Europe the impact of the crisis was most felt. Although demand stabilized at low levels during the year, there is no clear sustainable recovery in sight.

REGIONAL SALES 2008 AND 2009



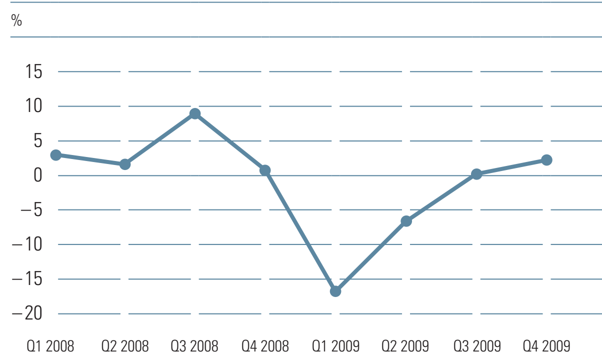
Despite the fact that sales volumes were 18 percent lower in CHF in 2009 compared with 2008, gross margins remained relatively stable at 28.2 percent compared to 28.7 percent in 2008. During 2009 we saw a marked improvement in gross margins from quarter one. The Q1 margin was 23.6 percent which increased to 29.3 percent in Q2 and 30.1 percent in Q3, dropping slightly to 29.6 percent in Q4. This was achieved as a result of three main reasons:

Firstly, the Clariant management decisively addressed lower demand levels and the resulting underutilization costs in many of Clariant's plants by introducing shorter working hours, temporary shutdowns and involuntary vacations, mainly in its European and American production facilities.

Secondly, due to the company's strong price management strategy, Clariant was largely able to counter pricing pressures. Raw material costs, which peaked in the second half of 2008, dropped in the first half of 2009, before bottoming out and slightly increasing again. Overall raw material prices decreased by 11 percent in 2009.

RAW MATERIAL COSTS CHANGE QUARTER BY QUARTER

%



Thirdly, the pressure on the gross margin from the devaluation of inventories came to an end with the stabilization of raw material prices.

The implementation of the company's stringent cost-cutting efforts led to a decrease in SG&A costs from CHF 1.64 billion in 2008 to CHF 1.47 billion in 2009. We reduced our headcount by 2 566 in 2009 and we now employ 17 536 people, compared to 20 102 at the end of 2008. As restructuring continues, additional headcount reductions will be necessary in 2010.

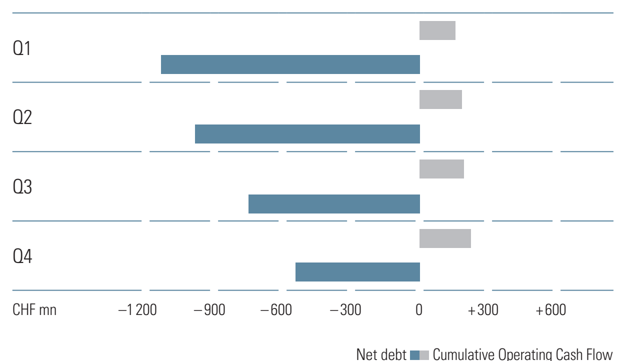
As the savings achieved in 2009 did not compensate fully for the drop in demand, we will continue to cut costs and "right-size" ourselves to reflect the new economic realities and lower demand levels in which we operate.

As a consequence of our focus on gross margin management, combined with cost cutting, the organization's operating income before exceptional items progressively improved through the year. While we reported a loss of CHF 13 million in the first quarter, the second and third quarters showed an operating profit of CHF 69 million and CHF 107 million respectively. Fourth quarter profits of CHF 107 million led to an operating profit before exceptional items of CHF 270 million for the full year 2009. The operating income margin, before exceptional items was 4.1 percent for the year. Restructuring and impairment costs of CHF 298 million led to a net loss of CHF 194 million for 2009 compared to a loss of CHF 37 million in the previous year.

CASH FLOW

Our operating cash flow reached CHF 757 million compared with CHF 391 million in 2008. This significant achievement was a result of the continued stringent focus on decreasing net working capital, mainly through tight inventory and accounts receivable management. As a consequence of this effort, combined with lower input costs and generally lower demand levels, inventories decreased to CHF 853 million compared to CHF 1 373 million a year ago. Towards the end of the year, operating income increasingly contributed to operating cash flow as the decisive cost cutting measures outlined above began to bear fruit. As we are determined to follow through with further cost reductions next year, this trend is expected to continue in 2010.

CUMULATING CASH FLOW – NET DEBT DEVELOPMENT IN 2009



BALANCE SHEET

The underlying restructuring efforts also positively impacted our balance sheet in 2009. Our strong liquidity position significantly improved. It was further enhanced by a CHF 300 million convertible bond issued in July 2009. At the same time, we managed to significantly reduce our net debt to CHF 545 million from CHF 1 209 million in 2008. This resulted in a gearing ratio of 29 percent, compared to 61 percent a year ago. The gearing ratio reflects net financial debt in relation to equity, including minorities.

Total assets increased to CHF 6 092 million from CHF 5 946 million at the end of 2008. The most important item contributing to this development were Cash and cash equivalents, which increased to CHF 1 140 million from CHF 356 million. This increase was partially offset by the focus on reducing net working capital.

Net working capital was a key objective for 2009. The continued focus on inventory reduction and trade receivables management led to a significant reduction in inventories to CHF 853 million.

Equity decreased to CHF 1 896 million as of December 31, 2009, compared to CHF 1 987 million at the end of 2008. This was largely due to a net loss before minorities of CHF 194 million during the reporting period. This net loss was driven by the aforementioned restructuring charges and impairment costs.

The Group will not face capital market maturities (bonds, certificates of indebtedness) until 2011, when a EUR 100 million certificate of indebtedness matures. Local rollover loans, almost all of them net working capital financings, are well diversified, being based on a large number of banks worldwide. The absolute volume of the organization's short-term financings remains low. In addition to a cash position of CHF 1.14 billion, its available headroom under existing credit facilities now stands at more than CHF 1 billion (liquidity headroom).

EARNINGS PER SHARE

The total number of Clariant shares at year-end 2009 was 230 160 000. The weighted average used to calculate results per share was 225 905 255, compared to 226 532 736 at the end of 2008. Continued operations posted a loss of CHF 0.91 per share while discontinued operations posted a loss of CHF 0.00 per share, leaving a net loss for the Group of CHF 0.91 per share. This compares to a 2008 Group net loss of CHF 0.20 per share.

Reflecting the current uncertainties in the economic environment and the operating loss, the Board of Directors will recommend to Clariant's 15th General Assembly on March 29th to suspend dividends, grants or payouts to shareholders for 2009.

DIVESTMENTS AND ACQUISITIONS

On May 12, 2009, Clariant acquired the activities of XL Performance Chemicals in the US.

On September 15, 2009, Clariant disposed of the subsidiary Clariant Masterbatches (Korea) Ltd. On September 30, 2009, Clariant Peru sold its emulsion business.

On September 1, 2009, the industrial park services in Griesheim in Germany were sold. On August 31, 2009, Clariant agreed to sell its specialty silicones business, Clariant Life Science Molecules (Florida) Inc, in the US to SiVance LLC, an affiliate of the New York-based private equity firm GenNx360 Capital Partners. The emulsion business in Guatemala was sold on April 16, 2009. Clariant India disposed of its flexible laminating adhesives business on March 7, 2009.

Details of these divestments can be seen on page 97 (Note 22) and page 98 (Note 23).

Textile, Leather & Paper Chemicals *successfully focused on costs to counter the steep decline in sales. In 2010 we will continue to reduce costs and complexity.*

RESULTS BY DIVISION

TEXTILE, LEATHER & PAPER CHEMICALS

Clariant's Textile, Leather and Paper businesses suffered greatly from the effects of the economic crisis with sales dropping 13 percent in local currencies and 18 percent in Swiss francs compared to 2008. The impact was especially severe in the first quarter as the full effect of the crisis continued to spread from the US to Europe and Asia. However, towards mid-2009, demand stabilized but with a mixed picture emerging among the three businesses. Leather recovered from the downturn in the first half of 2009, mainly driven by higher sales in the auto and shoe industries. The paper chemicals market remained weak as volumes only recovered minimally and sales prices continued to come under pressure. In the Textile business demand stabilized, albeit at lower levels.

At a regional level, Asia and Latin America were more resilient to the downturn than Europe and the US. This stabilization was driven by relative strength in Asia, where volumes recovered to the previous year's levels by the second half of 2009. Demand in Europe and North America stabilized above the significantly lower levels of the first half of 2009, however, at much reduced levels when compared to 2008.

The Division successfully focused on the reduction of SG&A costs in order to counter the steep decline in sales. As a result, the break-even point was lowered considerably and operating margins significantly improved during the year. The focus in 2010 will continue to be reducing costs and complexity. Adapting the production site network to lower demand levels while redefining service levels will help to improve the competitive potential of all businesses in the Division.

TLP SALES

CHF mn	
2009	**1 648**
2008	2 020
2007	2 332

TLP EBITDA[1]

CHF mn	
2009	**92**
2008	152
2007	217

TLP EBITDA[1] MARGIN

%	
2009	**5.6**
2008	7.5
2007	9.3

[1] Before restructuring and disposals

Masterbatches *felt the impact of weak demand levels. It adjusted production capacity and saw a broad-based recovery in the second half of 2009.*

MASTERBATCHES

Masterbatches also felt the impact of weak demand levels compared to the previous year, with sales falling 8 percent in local currencies and 12 percent in Swiss francs. Masterbatches continued to adjust its production capacities by introducing shorter working hours mainly in Europe, while restructuring its production network by selling operations in Korea, and closing production sites in the UK, Canada and the US.

In the second half of the year, Masterbatches benefited from a broad-based demand recovery. This recovery was stronger than in the other Divisions. It was mainly driven by a modest improvement in the packaging and consumer segments and the more cyclical sectors such as textiles and automotive. The de-stocking, which was seen in the first half of the year, stabilized, however customers continued to be reluctant to build inventories, leading to higher conversion costs as average order sizes decreased.

All regions were affected by the economic crisis. However, sales did improve towards the end of the year, especially in Asia, Latin America and Europe, which all experienced double-digit growth in the fourth quarter. Latin America even showed a slight improvement for the full year 2009, compared with the previous year.

Masterbatches was able to defend its gross margin on a year-on-year basis. The sharp focus on cost management led to a respectable operating result. Looking to 2010, the degree of recovery remains uncertain and therefore Masterbatches will continue to make structural adjustments and consolidate sites as required in order to respond to changing market conditions.

MB SALES

CHF mn

2009	**1 122**
2008	1 278
2007	1 380

MB EBITDA[1]

CHF mn

2009	**105**
2008	122
2007	153

MB EBITDA[1] MARGIN

%

2009	**9.4**
2008	9.5
2007	11.1

[1] Before restructuring and disposals

Pigments & Additives *focused on efficiency improvements in the face of weak demand. The Division generated strong cash flow, mainly from reducing net working capital.*

PIGMENTS & ADDITIVES

The Pigments & Additives Division experienced generally weak demand throughout the year, especially in the first quarter. Sales were down 22 percent in local currencies and 25 percent in Swiss francs. In the second half of 2009, de-stocking in the value chain slowed and demand stabilized. During the same period the Division saw an increase in demand for plastics. There was also some recovery in demand for pigments used in automotive coatings and decorative paints from the low levels at the outset of the year.

As in the other Divisions, all regions were impacted by the economic crisis. Latin America was again the most resilient and showed sales growth throughout the year. Asia was mixed, with China leading the recovery. Europe and the US were significantly down compared to last year and showed little improvement during the second half of 2009.

The Division, which generated strong cash flow mainly through reducing net working capital, will continue to focus on efficiency improvements with the aim of lowering costs and further improving cash flow generation.

PA SALES

CHF mn	
2009	**1 459**
2008	1 948
2007	2 076

PA EBITDA[1]

CHF mn	
2009	**125**
2008	293
2007	278

PA EBITDA[1] MARGIN

%	
2009	**8.6**
2008	15.0
2007	13.4

[1] Before restructuring and disposals

*Despite being less affected by the economic downturn, **Functional Chemicals** implemented decisive restructuring measures to improve performance.*

FUNCTIONAL CHEMICALS

In the Functional Chemicals Division sales were down 11 percent in local currencies and 16 percent in Swiss francs, compared to 2008. Despite being less affected by the economic downturn, the Division implemented timely and decisive restructuring measures in order to improve performance. This resulted in strong operating margins, which were slightly improved compared to 2008 levels. The pressure on sales prices continued throughout the year, reflecting raw material cost developments as well as the challenging market environment.

Clariant Oil Services showed strong results in Latin America, while business conditions in Europe and the US remained poor. A recovery of oil prices in the second half of the year supported the business and led to the re-launch of many exploration projects. In the Industrial & Consumer Care (ICC) Business, demand picked up slightly compared with the start of the year. The consumer-related businesses stabilized and the demand in industrial business improved slightly during the second half of the year. The crop protection business experienced some weakness as the agrochemicals market consolidated its recent boom phase. The de-icing business benefited from the cold 2008/2009 winter season and again cold weather conditions at the end of 2009.

The Division's continued focus on restructuring and streamlining led to the sale of its US-based specialty silicones business to a private equity firm. In order to meet the long-term growing demand for various end markets in China, the Functional Chemicals Division opened a surfactants production facility in Zhenjiang and started construction work on an ethoxylation plant in Dayabay, near Guangzhou, which is due to come on stream in early 2011.

FUN SALES

CHF mn	
2009	**2 385**
2008	2 825
2007	2 745

Axis: 0, 750, 1 500, 2 250, 3 000

FUN EBITDA[1]

CHF mn	
2009	**283**
2008	316
2007	262

Axis: 0, 100, 200, 300, 400

FUN EBITDA[1] MARGIN

%	
2009	**11.9**
2008	11.2
2007	9.5

Axis: 0, 4, 8, 12, 16

[1] Before restructuring and disposals

Strategic Review

For a number of years and across a range of performance indicators, Clariant has lagged behind its peers. Our costs have been too high and our profitability too low, which has placed us at a competitive disadvantage.

To close this performance gap, we embarked on two major initiatives in 2009:

***Project Clariant** involves a complete restructuring of the organization. Meanwhile, **Clariant Excellence** is introducing a culture of continuous improvement.*

The combination of these two projects will ensure we emerge from the economic crisis as a stronger company.

BACKGROUND

The economic crisis hit us at a time when our overall competitiveness was weak. For a number of years we have lagged behind the competition across a range of performance indicators. Clariant's sales per employee, SG&A costs, sales growth and net working capital ratios have all consistently been in the lower quartile for the sector. As a consequence of the complexity of our organization and its structural inefficiencies, we have some of the highest cost ratios in the sector. As a result, profitability measured in EBITDA and ROIC have remained low.

To manage the impact of the economic crisis, close the performance gap with our peers and create a sustainable platform for high performance, Clariant embarked on two major initiatives in 2009:

› **Project Clariant.** Instigated at the end of 2008, Project Clariant was developed with the aim of increasing cash generation, reducing cost and complexity. Project Clariant is the vehicle for Clariant's restructuring program, which through 2009 and 2010 will systemically analyze the company layer by layer to optimize processes across all areas.

› **Clariant Excellence.** Clariant Excellence was launched in March 2009 to systemically introduce a culture of continuous improvement throughout the company.

PROJECT CLARIANT

Project Clariant comprises a range of work streams divided into three parts. The main focus areas are: **Cash, Cost and Complexity**.

PROJECT CLARIANT – KEY WORK STREAMS AND TARGETS

	Workstream	*Targets*
Cash	› Working capital reduction	› NWC = 24 % of sales by end 2009
Cost	› FTE reductions › Asset network optimization	› Reduce by > 2000 FTEs in 2009; focus on SG & A › Identify and plan plant shut-downs – (Project GANO)
Complexity	› Product pruning › Country pruning › Organization design	› Reduce product portfolio complexity › Reduce country presences › Define and implement streamlined and effective organization

Cash: In 2009, we generated more cash than ever before. This was achieved due to the efforts of 'Cash Performance' initiative, which focused on reducing inventories and trade receivables. Strict ongoing disciplined inventory management will be vital to manage net working capital effectively. In addition, we increased payable days through the renegotiation of contracts. Net working capital as a percent of sales was reduced to 21 percent by the end of 2009, exceeding our target of 24 percent.

Cost: Clariant's high cost base puts us at a competitive disadvantage. To address this fundamental weakness, Project Clariant focuses on decreasing costs in all areas, with a particular focus on SG&A.

"2009 and 2010 are the years of restructuring at Clariant. We are systemically analyzing the entire company to build a platform for sustainable profitable growth."

HARIOLF KOTTMANN, CHIEF EXECUTIVE OFFICER

The number of full time equivalent (FTE) job positions was reduced by more than 2 500 compared to the end of 2008, taking the total number of employees to under 17 600 in December 2009. Further workforce reductions will be required in 2010 as the business continues to restructure. All job cuts have been discussed with workers' representatives and local officials, and Clariant is committed to treating all affected employees in a fair and transparent manner.

The production network is another area where Clariant is at a competitive disadvantage. Historical structural weaknesses combined with long-standing overcapacity issues significantly impact our cost base. To address these production issues, Project Clariant established the Global Asset Network Optimization (GANO) Project to evaluate each site and implement a rationalization program. The initial results of Project GANO were announced in Q4 2009. The sites at Huningue, France; Pontypridd, UK; CIVAC, Cuernavaca, Mexico; and parts of two plants at Clariant sites in Germany (Gendorf and Frankfurt), were nominated for closure. Clariant also initiated an evaluation of all strategic options for its site in Onsan, South Korea, and closed two smaller Masterbatches sites at Lavine, Quebec, Canada, and Milford, Delaware, US.

Headcount reductions and other cost savings have started to make a positive contribution to operating income before exceptionals. This improvement in operating income is vital for our long-term, sustainable cash generation as the potential for further working capital reduction diminishes.

Complexity: The number of products that we sell and the number of countries in which we sell them, combined with our organizational structure, makes Clariant a complex organization. This is why in 2009 reviewing the organization's structure was a key priority for Project Clariant. The complexity of our structure hindered our ability to manage our business in the most efficient way. Clariant is a specialty chemicals company and by its nature has to deal with a relatively high degree of complexity that results from its broad and specialized product range. To be successful, we must minimize this complexity and ensure we can handle our portfolio with flexibility.

The existing matrix of Clariant's Divisions and regions resulted in:
› too many interfaces,
› a lack of accountability where business decisions should be made,
› lack of transparency for costs and performance, and
› lack of speed in responding to changes in the market place.

Simplifying our structure will not only close the performance gap with our competitors but also facilitate entrepreneurship and accountability, thereby building a platform for the sustainable improvement of our profitability.

The basic principles for the redesign were:
› **Accountability** – Simplifying structures to reduce the span of control of each management unit and measuring our managers against what they can really control.
› **Cost efficiency** – Removing redundancies in our decision-making and implementation processes. Reducing management hierarchies and eliminating overlaps in order to continue to drive down costs.
› **Business requirements** – Following the main strategic priorities of the business while considering the fluctuations of the marketplace.
› **Strategic flexibility** – permanently reviewing and renewing the portfolio. Our structure must be flexible enough to enable us to make quick changes to the portfolio. Where applicable, this includes M&A and partnering opportunities.

STRUCTURAL CHANGES DEFINED

KEY ELEMENTS OF CLARIANT'S REVISED STRUCTURE

New structure	*Role*
1. Executive Committee	Overall responsibility and accountability for steering our organization both strategically and operationally.
2. Corporate Center	Supports the EC by implementing objective setting and ensuring the necessary resources and structures are in place.
3. Business Units	Ten BUs lead business operations. Each BU has P&L accountability for its businesses.
4. Business Services	Delivery of non-core services to the BUs. Coordinated globally and delivered through eight Regional Service Centers.
5. Regions and Countries	Lead Business Services locally by coordinating across BUs. They also represent the company with external stakeholders.
6. Group Technology Services	Coordinate and centralize innovation through six units.

1. EXECUTIVE COMMITTEE

The **Executive Committee (EC)** has overall responsibility and accountability for steering our organization both strategically and operationally. The EC sets the overall objectives for the company and aligns the structure of the organization to meet those targets.

The EC has a key responsibility to manage resource allocation, succession planning and talent management to ensure we have the right people in the right places to deliver continuous improvement going forward.

2. CORPORATE CENTER

The Corporate Center comprises all the core functions including; Finance, Corporate Affairs, Clariant Excellence and Environmental, Safety, and Health Affairs (ESHA). Encompassing approximately 100 employees, the Corporate Center supports the Executive Committee and the Board of Directors by implementing objective setting and ensuring the necessary resources and structures are in place. In this regard, the Corporate Center works closely with the Business Units and defines the strategy and scope of Business Services.

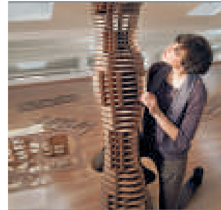
3. BUSINESS UNITS

Operational management has now completed the implementation of ten newly created **Business Units (BUs)**. Each BU has full responsibility for its operating results. The BUs control and manage the value chain, including: applications, purchasing, production, supply chain, marketing, and sales. The BUs were created from the divisional structure, which was dissolved on December 31, 2009.

These BUs have a revenue range of between CHF 1.7 billion and CHF 200 million. All assets have been allocated to the BUs according to the "major user principle" in the case of multipurpose sites.

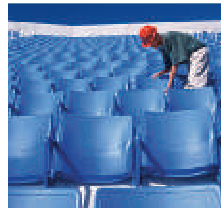
THE BUSINESS UNITS DEFINED

Industrial & Consumer Specialties BU
Leader in ethylene oxide derivatives for a large variety of markets including; personal care, industrial and home care, de-icing, metal working, construction and crop protection.



Paper Specialties BU
A leading provider of optical brighteners, colorants and functional chemicals for paper and packaging applications.

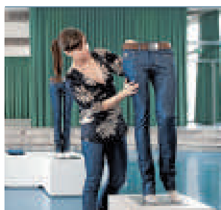
Pigments BU
Worldwide leading producer of pigments for coatings, paints, plastics and printing.



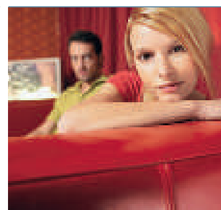
Additives BU
A major producer of halogen-free flame retardants, waxes and polymer additives for plastics, paints, and inks.

Masterbatches BU
Worldwide leader in masterbatches for the automotive, consumer goods, electrical, medical, packaging and textile/fiber industries.

Detergents & Intermediates BU
A leading supplier of detergents and intermediates to the consumer care, agro and pharmaceutical industries.

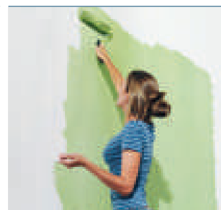


Textile Chemicals BU
A leading producer of dyes and chemicals for the textile industry including; apparel, upholstery, fabrics, and carpets.



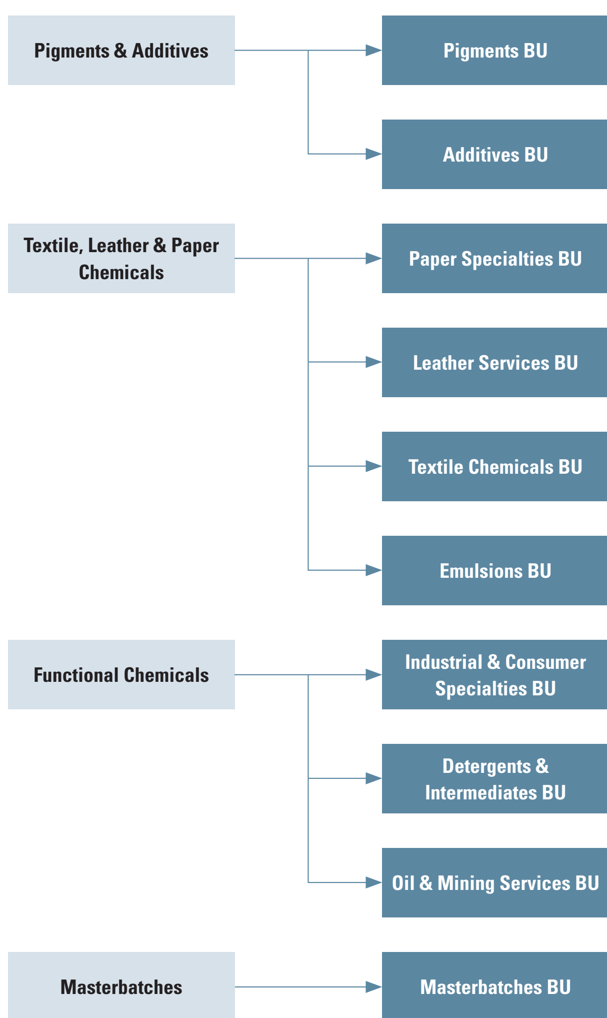
Leather Services BU
A leading supplier of leather chemicals and services for wet processing, tanning, dyeing and finishing for leather markets including automotive, shoe and furniture.

Oil & Mining Services BU
A leading provider of products and services to the oil, refinery and mining industries.



Emulsions BU
A supplier of synthetic latexes/polymer dispersions for paints, coatings, adhesives, and sealants for the textile, leather and paper industries.

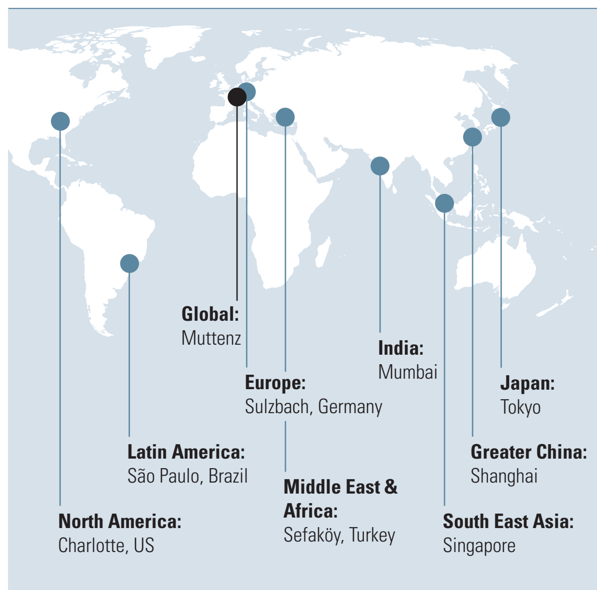
10 BUSINESS UNITS WERE CREATED FROM THE DIVISIONAL STRUCTURE



4. BUSINESS SERVICES

Business Services are coordinated globally from Muttenz and delivered through eight Regional Business Service Centers. Business Services comprise of HR, IT, Strategic Procurement, Logistics, Supply Chain, Finance, Legal, and Communications. Guidance and direction with regards to the regional service is provided either by the Corporate Center or the Global Business Services, with the Regional Service Centers focusing on both the cost and quality of the services provided.

BUSINESS SERVICES – LOCATIONS



5. REGIONS/COUNTRIES

The regions and countries are responsible for managing the business services for their location. Each region/country is headed by a Business Services lead who is responsible for coordinating across all the BUs to ensure they receive the right level of service. However, the regional/country lead has no direct business responsibility (i.e. for profit or loss) as this remains entirely with the BUs.

The country or regional head is also Clariant's point of contact for external stakeholders, ranging from local communities to national governments.

6. GROUP TECHNOLOGY SERVICES

To enable us to streamline and strengthen important functions along the technology and innovation chain, a new Group Technology Services (GTS) organization was formed comprising six centralized units:

Group Research & Development integrates the former divisional R&D units, thus uniting our chemical synthesis know-how. The new unit provides chemical technologies and new product solutions for the BUs and will generate a sustainable R&D pipeline in an efficient and effective way.

Group Process Development is our center of excellence for chemical process technologies. It underlines our commitment to optimizing and developing new process technologies that deliver cost effective, safe, and reliable production processes enabling high quality products.

New Business Development explores and develops new business opportunities for Clariant beyond the scope of the BUs. Technology scouting and portfolio management will be crucial for creating viable new businesses.

Intellectual Property Management includes our patent department. The unit executes our IP strategy and manages the corresponding IP portfolio. This unit also drives knowledge management across the company involving external partners from industry and academia.

Group Engineering provides engineering services to Clariant, ranging from basic plant design to the start-up of optimized or new infrastructure and production facilities.

Group Product Safety ensures compliance with all internal and external safety regulations and creates the basis for the marketability of our products. This unit includes functions such as chemical inventory and product data management, toxicology and transport safety.

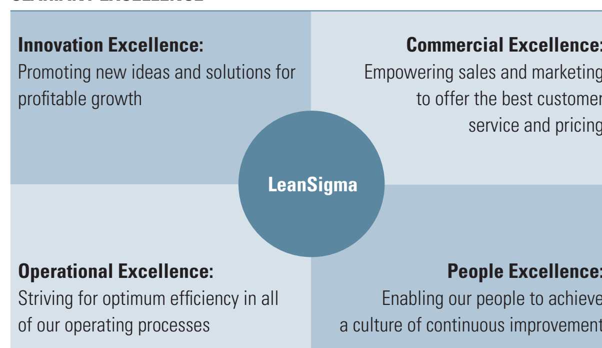
Innovation and technology are crucial to our success. As such GTS will play a vital role and will create the platform to support profitable growth in the future.

CLARIANT EXCELLENCE – DELIVERING LONG-TERM SUSTAINABLE PERFORMANCE

While Project Clariant focuses on addressing our structural and cost-based issues, Clariant Excellence is a long-term initiative aimed at introducing continuous improvement projects and reinforcing cultural change. With LeanSigma processes at its core, the mission of Clariant Excellence is to enhance our competitiveness by creating customer value and greater efficiency. Clariant Excellence will create a new business culture which embraces entrepreneurship and will position us at the top performance levels of our industry.

Clariant Excellence comprises four elements – Operational Excellence, Commercial Excellence, Innovation Excellence and People Excellence. These elements are being developed and implemented step-by-step.

CLARIANT EXCELLENCE



Operational Excellence focuses on operational and administrative areas. It will continuously improve all of our operational processes, from order entry and planning to production and delivery to the customer. It also includes our purchasing processes.

Commercial Excellence focuses on sales and marketing. It will empower our sales and marketing organization to offer the best customer service, product portfolio and value, hence increasing sales effectiveness. With efficient processes and tools, managing the gross margin and driving growth will continue to be the focus for our sales activities.

For 2009 and into 2010, we have prioritized cash generation and cost reduction. As a result, our focus continues to be on Operational Excellence and Commercial Excellence. However, from 2011, we will introduce **Innovation Excellence** to promote new ideas and turn them into profitable products in the markets.

The fourth element of Clariant Excellence is **People Excellence**, which is the foundation for the success of all 'excellence' areas, providing employees with the necessary skill sets and resources to conduct their work in a more efficient and innovative manner. The company is making a major commitment to selecting, training, and empowering the right people in our organization to drive continuous improvement.

The key methodology for continuous improvement of processes in all 'excellence' areas is LeanSigma. LeanSigma is a high-performance, data-driven approach to analyzing the root causes of business problems and solving them. LeanSigma training and projects are operating throughout the organization to drive change. In 2009, approximately 1 500 employees were trained in LeanSigma processes, with more than 500 senior, and middle managers trained as 'Excellence' champions. In 2009 420 LeanSigma projects were initiated generating savings for the company of more than CHF 12 million over the year.

In summary, our goal remains to achieve a performance level that is above the industry average by the end of 2010. We are confident that by rigorously applying Project Clariant and implementing continuous improvement through Clariant Excellence, we can sustainably improve Clariant's performance and meet our goal.

Corporate Responsibility

Conducting ourselves responsibly in our interactions with customers, employees, neighbors, and the environment is not only ethically mandatory, it is also a way in which we strengthen our partnerships with those stakeholders upon whom our ability to succeed in the current economic climate and in the future ultimately depends.

"Corporate responsibility is an essential component of our sustainable platform for profitable growth."

HARIOLF KOTTMANN, CHIEF EXECUTIVE OFFICER

GLOBAL REPORTING INITIATIVE (GRI)

To inform our shareholders and other stakeholders about our responsible corporate management efforts in a transparent fashion, we follow the guidelines of the Global Reporting Initiative (GRI). The GRI checked and confirmed our successful adherence to its G3 sustainability reporting guidelines at C-Level throughout this report, together with the report's GRI Web-Addendum, published on the internet.

CLEAN AND SAFE OPERATIONS

We are deeply committed to environmental protection and safety in all our activities, and strive to go beyond compliance with the rigorous and proactive implementation of national laws and internal regulations. Our Environment, Safety & Health (ESH) policy fulfills the goals of the Business Charter for Sustainable Development by the International Chamber of Commerce, and we have been awarded the global ISO 14001-2004 and OHSAS ISO 18001-1999 certificates. Each of our worldwide facilities is required to adhere strictly to the principles of clean and safe operations outlined by the corporate ESH department, and we operate a global incident reporting and emergency management system.

SELECTED ENVIRONMENTAL, SAFETY AND HEALTH PERFORMANCE INDICATORS:

Five-year trend 2004–2008	Unit	2008	2007	2006	2005	2004
Material, energy, and water consumption						
Materials used to manufacture products	1 000 tons	2 182	2 318	2 401	2 480	2 642
Purchased electricity consumption	1 000 TJ	3.71	3.97	4.27	4.55	4.78
Natural gas consumption	1 000 TJ	4.48	4.81	6.25	6.94	7.26
Fuel oil consumption	1 000 GJ	572	803	1 024	1 206	1 292
Water consumption, incl. process water etc.	million m^3	96	103	112	114	121
Discharge to air and water; waste						
Direct carbon dioxide emissions	1 000 tons	468	507	596	642	672
Direct global warming potential (carbon equivalent – Scope 1)	1 000 tons	653	708	898	1 032	1 070
Indirect global warming potential (carbon equivalent – Scope 2)	1 000 tons[1]	583	647			
Sulphur dioxide	tons	422	538	611	685	765
Oxides of nitrogen	tons	428	425	515	839	1 101
Total effluent discharge	million m^3	25.6	27.0	29.7	31.4	33.9
Organic substances in effluents (chemical oxygen demand)	1 000 tons O_2	5.97	6.45	7.04	7.81	7.98
Generated non-hazardous waste	1 000 tons	120	123	135	128	135
Generated hazardous waste	1 000 tons	120	111	144	175	170
Occupational accidents						
Frequency – lost time accident rate	[2]	0.78	0.92	1.05	1.13	1.27
Severity – lost workday rate	[3]	11.3	15.9	19.6	17.3	20.8

[1] From purchased energy (electricity, steam, etc.). Data collection started in 2007.
[2] Number of work-related accidents with minimum one lost workday per 200 000 working hours.
[3] Number of lost workdays resulting from work-related accidents per 200 000 working hours.

Our global AvoidingAccidents@Clariant initiative, which reduces accidents by changing workers' mindset and behavior, has achieved a 13 percent reduction in the number of workplace accidents in 2009 compared to 2008. Our Energy 2010 program, which involves energy audits at all major sites, has contributed to more than a 16 percent energy consumption reduction per ton of product from 2004 to 2008. Initiatives in 2009 under the auspices of this program included replacement of two old distillation columns with a single column for monoethylenglycol production at our Gendorf site. This achieved increased separation efficiency and at the same time an annual saving of 200 MWh of electricity, 15 000 MWh of steam, 5 500 t of GHG emissions, and CHF 1 million in energy costs. Further initiatives were conducted in fields such as effluent reduction. An example was the complete cessation of nitrogen component discharge into waste water at our Knapsack site. To achieve this, aqueous scrubbing solution for an exhaust air scrubber for ammonia was replaced with phosphoric acid. The resulting diammoniumphosphate is now isolated and sold as raw material to the fertilizer industry. Other environmental protection projects included phosphate reductions at Hoechst, nitrogen compound reductions at Knapsack, and air pollutant reductions such as VOC emission reductions at Muttenz. In 2009, Clariant supported its ESH programs with an investment of more than CHF 20 million.

The table on page 27 illustrates the results of our ESH efforts from 2004 to 2008. Corresponding data for 2009 will be published on our website in April 2010 to allow time to gather and validate data from our production sites across 40 countries.

SAFE AND SUSTAINABLE PRODUCTS

Clariant is fully committed to the principles of sustainable development in all aspects of production, transport, distribution and use of products and services during their life cycle. As a leader in the chemical industry, Clariant goes beyond legal requirements and participates in several programs including the Global Charter Responsible Care® and Global Product Strategy (GPS) initiatives.

These voluntary programs are focused on permanently improving the safety, health and environmental performance of Clariant and the products that it manufactures and distributes. Key objectives of these initiatives are the enhanced safety and environmental friendliness of products, and improved communication with customers and other stakeholders.

In addition to these voluntary programs, Clariant is also preparing to comply with the legal obligations set by the Registration, Evaluation, Authorization, and Restriction of Chemical Substances (REACH) legislation, the first registration deadline of which falls on November 30, 2010. Until this date, high-volume substances and certain substances with potential hazards to human health or the environment must be registered with the European Chemical Agency (ECHA) in Helsinki. Complying with REACH and other regulatory frameworks requires close cooperation across business functions, with different business partners and regulatory agencies, and across the Clariant supply chain.

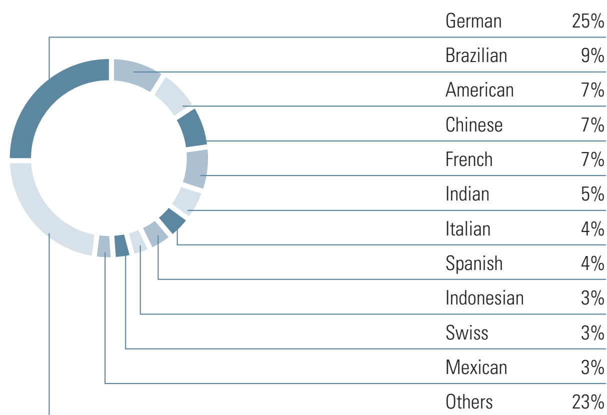
An example of Clariant's commitment to sustainability is the new Genaminox® CHE line of products, a bio-based Amine Oxide for hard surface cleaning that enables manufacturers to reduce the active ingredients required in cleaning products. Because Genaminox® CHE-based cleaning fluids have lower amounts of active ingredients and a higher water content, they have a lower ecological and toxicological profile, thus reducing the overall environmental footprint for these materials. The result of this innovation – lower costs, enhanced cleaning performance and sustainable attributes – is a product line that qualifies for Clariant's EcoTain label, which reflects a commitment to proactive and responsible management of its product portfolios to better meet the needs of its customers.

A CULTURE OF HIGH PERFORMANCE, FAIRNESS, AND COOPERATION

In challenging times, companies must focus on fostering a highly motivated and competent workforce and treating their employees fairly. Regular performance dialogues are designed so employees are clear about their contribution to Clariant's overall success and are motivated to meet ambitious targets. Our long-term success is dependent on establishing a culture of continuous improvement. This will be delivered through the 'Clariant Excellence' program (see page 24). The cornerstone of 'Clariant Excellence' is 'People Excellence'. The implementation of 'People Excellence' will ensure Clariant has the right people at the right time for the right positions. The program will focus on improving how the company develops its people, by providing them with the necessary degrees of freedom as well as the skill sets and resources. To ensure these improvements are enduring, Clariant is also placing a strong emphasis on succession planning and talent management.

EMPLOYEES BY NATIONALITY

Clariant employs 17 536 people from 86 different nationalities.
This is how the numbers break down:



Clariant is fully compliant with the principles of the International Labour Organization and constantly monitors its locations in this regard. This includes full compliance with regulations concerning freedom of association. Approximately 50 percent of our employees are covered by collective bargaining agreements. We work closely with employee representatives and staff when operational changes arise (e.g. plant closures).

We adhere to and often exceed local minimum wage requirements, depending on the competitive situation in each location. As a result, we are able to attract the strongest candidates and retain a loyal workforce. We also adhere to all local rules relating to the treatment of temporary and part-time employees.

BUSINESS INTEGRITY AND COMMUNITY SUPPORT

The Clariant Code of Conduct, which is available on our website, covers responsible behavior, protecting the reputation of the company, and reducing risks for our shareholders. It requires us, as well as each employee, to respect and fully abide by a comprehensive set of rules ensuring fair competition, freedom of association, and the right to collective bargaining, and strictly prohibits corruption, discrimination, and child or forced labor.

All employees are trained in this Code. Using detail provided by line management, Clariant's General Counsel is the ultimate contact point for compliance questions, a responsibility that includes the tracking of all notifications of Code breaches and other related legal issues. In the year under review, no instances that could have a material impact on the Clariant Group of non-compliance with rules and regulations concerning corruption, unfair competition, or discrimination were registered.

We place a high value on being a responsible and supportive corporate citizen wherever we do business. For example in 2009, partnerships with neighboring communities included coaching provided by Clariant staff in Science, English, and basic IT skills and a student award sponsored by the company at a rural high school near our Kanchipuram site in India. Furthermore, first aid training and safety awareness sessions were provided to students in this partnership. In Portugal and Spain, Clariant focused on providing support for handicapped people in the workplace and outsourcing services from certified companies working with the disabled. In addition, the company sponsored a project where students of architecture toured the old city of Tarragona in wheelchairs or blindfolds to determine barriers for the disabled. The results of this experiment were displayed as an exhibition at the Catalonia Politechnical University.

RISK MANAGEMENT

ENTERPRISE RISK MANAGEMENT, PROCESS REVIEW AND REVISION

Enterprise Risk Management is designed to clarify risk levels and encourage entrepreneurial behavior throughout Clariant. The process considers opportunities and threats to short- and medium-term objectives as defined by the Board of Directors. Enterprise Risk Management ensures the coordination and development of Risk Management activities through all decision-making levels, ensures the communication of all significant risks to the Executive Committee, the CEO and the Board of Directors and aims to inform, train and motivate staff.

Under the group risk management policy, a risk management tool supports risk assessments, quantification, assessment of counter measures, allocation of responsibilities, and the management reporting structure. The policy is based upon the risk management standard of the Institute of Risk Management (IRM) and benchmarked to the Enterprise Risk Management – Integrated Framework of The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The results of the risk assessments and countermeasures are consolidated and the risk exposures are assessed by the CEO, the Executive Committee and the Board of Directors via the Audit Committee.

RISK ASSESSMENTS

Business planning and target setting are subject to risk assessment and, therefore, these risk assessments are linked to Clariant's overall short- and medium-term objectives and the individual objectives of senior managers. The risk score measures likelihood as well as financial, reputational and operational impact. Each risk assessment reports on threat or opportunity, cause, impact, treatment and control measures, level of confidence in the controls, acceptability of identified risks, potential improvements, risk improvement plans, and timescale.

The Risk Management Steering Committee reviews the assessment results for relevance, consistency, and accuracy. The risk assessment is repeated annually with quarterly updates and interim reporting as necessary. The process has an initial and update cycle designed to deliver timely results.

ENVIRONMENTAL, PRODUCT, AND FINANCIAL RISKS, AND LITIGATION

Relevant parameters for all manufacturing sites are centrally analyzed to minimize potential environmental, safety, and health risks. We mitigate risks arising from public and product liability by concluding insurance policies and booking provisions. We limit potential inherited liabilities arising from acquisitions or disposals through contractual agreements whenever possible.

Financial risks are monitored through a comprehensive analysis and evaluation system. Payment stream imbalances (transactions risks) between various currencies are hedged on a selective basis via options, spot transactions, or forward transactions. The exposure of assets and liabilities (translation risks) is addressed by adopting a business behavior geared towards "natural" hedging. We manage the risks associated with interest rate changes primarily by maintaining the right balance between fixed and variable rates and credit facility maturity.

Appropriate provisions are booked for non-insured litigation including tax law, patent law, product liability, competition and environmental protection.

INFORMATION TECHNOLOGY RISKS

We operate business-critical software from a centralized computer center with two physically separated server parks. The system's parallel architecture overcomes failures and breakdowns. Reliable and permanently updated tools guard against virus attacks. We regularly practice emergency drills.

Corporate Governance

Clariant is committed to the international standards of corporate governance. These standards are delivered through our management structure and processes, and demonstrate to all our stakeholders that we operate in an open and transparent manner.

PRINCIPLES OF CORPORATE GOVERNANCE

In defining the management structure, organization and processes of the Clariant Group, the corporate governance principles aim to provide stakeholder value and transparency to promote sustainable long-term success. Clariant is committed to Swiss and international standards of corporate governance and follows the rules set out in the Swiss Code of Best Practice for Corporate Governance and the SIX Swiss Exchange. The principles and regulations on corporate governance are described in the Swiss Code of Obligations, the Articles of Association of Clariant Ltd, the organizational Group regulations of the Clariant Group, and the Clariant Code of Conduct. The Board of Directors reviews these documents regularly and adapts them as the need arises.

The Articles of Association of Clariant Ltd as well as the Clariant Code of Conduct can be viewed on the Internet at www.governance.clariant.com.

GROUP STRUCTURE AND SHAREHOLDERS

GROUP STRUCTURE

The registered domicile of Clariant Ltd is Rothausstrasse 61, CH-4132 Muttenz, Switzerland.

The company's business operations are conducted through Clariant Group companies. Clariant Ltd, a holding company organized under Swiss law, directly or indirectly owns all Clariant Group companies worldwide. Except as described below, these companies' shares are not publicly traded. The most important Clariant subsidiaries are listed in Note 32 of the "Notes to the consolidated financial statements of the Clariant Group" (pages 108 to 109).

Up to the end of 2009, the Group conducted its business through four Divisions: Textile, Leather & Paper Chemicals; Pigments & Additives; Functional Chemicals; and Masterbatches. As of January 1, 2010, the Group will conduct its business through ten Business Units: Paper Specialties, Leather Services, Textile Chemicals, Emulsions, Pigments, Additives, Industrial & Consumer Specialties, Detergents & Intermediates, Oil & Mining Services, and Masterbatches.

Clariant owns 63.4 percent of the publicly traded companies Clariant Chemicals (India) Ltd, listed on the Bombay Stock Exchange, ISIN no. INE492A01029, symbol CLARICHEM, and the National Stock Exchange of India, symbol CLNINDIA. The company also owns 75 percent of Clariant (Pakistan) Ltd, listed on the Karachi Stock Exchange, ISIN no. PK007670101.

SIGNIFICANT SHAREHOLDINGS OF THREE PERCENT OR MORE OF TOTAL SHARE CAPITAL

As of December 31, 2009, Clariant has 27 584 registered shareholders. At that date the following shareholders held a stake of 3 percent or more of the total share capital: BlackRock Inc., New York (US), 4.11 percent; JPMorgan Chase & Co., New York (US) 3.71 percent; ABN Amro, Amsterdam (NL), 3.34 percent; Dimensional Fund Advisors, Austin (US), 3.11 percent. Bestinver Gestión S.A., Madrid (ES) held a participation of less than 3 percent (2008: 4.97 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

CROSS-SHAREHOLDINGS

There are no cross-shareholdings.

CAPITAL STRUCTURE

CAPITAL

As of December 31, 2009, the share capital of Clariant Ltd is CHF 920 640 000 fully paid-in and divided into 230 160 000 registered shares, each with a nominal value of CHF 4.00. Clariant shares have been listed on the SIX Swiss Exchange since 1995 (symbol CLN, ISIN no. CH0012142631). Clariant Ltd does not issue non-voting equity securities (Genussscheine).

CONDITIONAL CAPITAL

The company's share capital may be increased by a maximum of CHF 160 000 000 by issue of a corresponding maximum of 40 000 000 registered shares with a nominal value of CHF 4.00 each. These must be paid up in cash, by the exercise of conversion or warrant rights granted to their holders in connection with bonds of the company or one of its subsidiaries. The details are set out in Article 5b of the Articles of Association.

Out of the conditional capital of 40 000 000 shares, 35 087 718 are allocated to a CHF 300 million senior unsecured convertible bond issued on July 2nd, 2009. The convertible bond maturing on July 7, 2014, has a conversion price of CHF 8.55 and a coupon of 3 percent per annum payable semi-annually in arrears.

CHANGES IN CAPITAL

Over the past three to four years, the company has reduced its nominal value per share. Otherwise, the share capital remained unchanged. A table with additional information on changes to the share capital of Clariant Ltd in 2008 and 2009 can be found on page 84 (Note 14) of this Annual Report. The respective information details for 2007 and 2008 can be found on page 80 (Note 14) of the 2008 Annual Report.

TRANSFERABILITY OF SHARES

Transfer of registered shares requires the approval of the Board of Directors which may delegate this function. Approval is granted if the acquirer discloses his/her identity and confirms that the shares have been acquired in his/her own name and on his/her own account.

NOMINEE REGISTRATIONS AND VOTING RIGHTS

Each registered share entitles the holder to one vote at General Shareholders' Meetings. Voting rights at Clariant are limited to 10 percent of the share capital in accordance with Article 12, paragraph 1 of the Articles of Association. Also, special rules apply to nominees if they fail to disclose the identity of the persons they represent and if their shareholding exceeds 2 percent.

CONVERTIBLE BONDS AND OPTIONS

In 2009, Clariant issued a convertible bond of CHF 300 million. The bond will reach maturity in 2014. In the past, options have been issued on registered shares as part of the employee participation scheme. Details of the option programs can be found on pages 103 to 105 (Note 27).

THE BOARD OF DIRECTORS

The Board of Directors of Clariant Ltd comprises at least six and no more than ten members. At the 14th Annual General Meeting, held in Basel on April 2, 2009, Klaus Jenny, Swiss citizen, was re-elected as a member of the Board of Directors for a three-year term of office.

MEMBERS OF THE BOARD OF DIRECTORS

Jürg Witmer, Swiss citizen

Chairman

Jürg Witmer studied political science at Geneva University's Institut de Hautes Etudes Internationales and law at the University of Zurich where he received his doctorate. In 1978, he joined Hoffmann-La Roche in Basel, first as a member of the legal department and then as assistant to the Chairman and CEO. In 1984, he moved to Hong Kong as Regional Marketing Manager of Roche Far East, later becoming General Manager. In 1990, he was appointed Head of Corporate Communications and Public Affairs at Roche Headquarters in Basel.

In 1994, he moved to Vienna as General Manager of Roche Austria. From 1999 to 2005, he was CEO of the Givaudan Group. He has been Chairman of Givaudan since 2005. Since 2008 he has been Chairman of Clariant Ltd.

Rudolf Wehrli, Swiss citizen

Vice-Chairman

Following studies at the Universities of Zurich and Basel, where he earned doctorates in theology, philosophy, and German literature, Rudolf Wehrli began his career in 1979 at McKinsey & Co. In 1984, he joined the Schweizerische Kreditanstalt (now Credit Suisse) as a member of the Senior Management. In 1986 he became Marketing Manager and member of the Executive Committee for the Silent Gliss Group. Five years later, he took over the management of the Group's German subsidiary. In 1995, he transferred to the Gurit-Heberlein-Group as a member of the Executive Committee and was promoted to Chief Operating Officer in 1998 and Chief Executive Officer in 2000. He remained in this position until the company split up in 2006. Since 2008, he has been Vice-Chairman of Clariant Ltd.

Hariolf Kottmann, German citizen

Chief Executive Officer (CEO)

Hariolf Kottmann earned his PhD in organic chemistry at the University of Stuttgart in 1984. In 1985, he launched his career at the former Hoechst AG in Frankfurt where he held several key management positions across the company's chemical divisions and functions. In 1996, he was appointed deputy head of the Basic Chemicals Division at Hoechst AG and took responsibility for the Inorganic Chemicals BU. In 1998, he joined Celanese Ltd in New Jersey (US) as a member of the Executive Committee and head of the organic chemicals BU. In April 2001, he was appointed as a member of the Executive Committee of SGL Carbon AG where he was responsible for the Advanced Materials Division and the Eastern Europe and Asia regions until September 30, 2008. He was also in charge of the SGL Excellence, Technology, and Innovation corporate functions. He became CEO of Clariant on October 1, 2008.

Prof. Peter Chen, US citizen

Peter Chen studied chemistry at the University of Chicago and in 1987 received a doctorate from Yale University in New Haven, Connecticut. He then served as an assistant professor (1988 to 1991) and as an associate professor (1991 to 1994) at Harvard University in Cambridge, Massachusetts. Since September 1994, he has been a full Professor of Physical-Organic Chemistry at ETH Zurich. From 2007 to 2009, he was Vice President of Research at the ETH Zurich.

Peter R. Isler, Swiss citizen

Peter R. Isler studied law at the University of Zurich, completing his studies with a doctorate. He then attended a masters program at Harvard Law School. From 1974 onwards he worked for two Swiss law firms and in 1981 became a partner at the Zurich law firm Niederer Kraft & Frey AG. He has been a lecturer in corporate and commercial law at the University of Zurich since 1978 and a member of the Canton of Zurich's Anwaltsprüfungskommission (lawyer's examination commission) since 1984.

Klaus Jenny, Swiss citizen

Klaus Jenny studied economics at the University of St. Gallen. After finishing his doctorate, he held various management positions at Schweizerische Kreditanstalt (now Credit Suisse) before being appointed a member of its Executive Board in 1987. In 1991, he took over as Head of Corporate Banking worldwide and Swiss operations. As a member of the Group Executive Board, he served as Chairman of the Executive Board of the Credit Suisse Private Banking BU. Klaus Jenny has held a number of directorships since leaving Credit Suisse.

Dominik Koechlin, Swiss citizen

Dominik Koechlin earned his doctorate in law from the University of Berne and holds an MBA from INSEAD, Fontainebleau, France. He started his career in 1986 as a financial analyst at Bank Sarasin. In 1990, he founded Ellipson, a management consultancy firm. From 1996 to 2000 he was a member of the Executive Committee of Telecom PTT, later Swisscom, where he was responsible for corporate strategy and international operations. Since 2001, he has served as a board member of the listed companies EGL AG, Swissmetal AG, and Plant Health Care plc, as well as on the board of several privately held companies. In addition, he is a member of the Board of the University of Basel.

Carlo G. Soave, British citizen

Carlo G. Soave studied languages and economics at Heriot-Watt University, Edinburgh, Scotland. He launched his career in 1982 at Oerlikon-Bührle, Switzerland, moving to Procter & Gamble in 1984. There he held various senior management positions including Vice President of Global Purchasing for the Fabric and Home Care division. In 2004 he founded Soave & Associates consulting company, based in Brussels, Belgium. He is a board member of MonoSol LLC, a company incorporated in Delaware, USA, and operating in Indiana, USA.

OTHER ACTIVITIES AND FUNCTIONS

Jürg Witmer

Board of Directors/supervisory mandates: Givaudan SA, Vernier/Geneva (Chairman); Syngenta AG, Basel (Vice-Chairman); Bank Sal. Oppenheim (Schweiz) AG.
Activities on behalf of companies and representative functions: None.

Rudolf Wehrli

Board of Directors/supervisory mandates: Berner Kantonalbank, Precious Woods AG, Kambly AG, BioMed Credit AG and Rheinische Kunststoff-Werke.
Activities on behalf of companies and representative functions: President of the Schweizerische Gesellschaft für Chemische Industrie until June 2008, the Swiss chemical and pharmaceutical industry umbrella organization; member of the Executive Committee of Economiesuisse; Board of Trustees of Avenir Suisse.

Peter Chen

Board of Directors/supervisory mandates: CSEM AG, Neuchatel
Activities on behalf of companies and representative functions: Consultant at Givaudan, Gesellschaft zur Förderung der Forschung und Ausbildung im Bereich der Chemie (Zurich), Scientific Advisory Board at OC Oerlikon Corporation AG.

Peter R. Isler

Board of Directors/supervisory mandates: Clariden Leu AG, Zurich; Clariden Leu Holding AG, Zurich; Schulthess Group AG, Bubikon, and other smaller companies.
Activities on behalf of companies and representative functions: Anwaltsprüfungskommission (lawyer's examination commission) of the Canton of Zurich.

Klaus Jenny

Board of Directors/supervisory mandates: Maus Frères SA, Geneva; Bâloise Holding, Basel, Edmond de Rothschild Holding SA.
Activities on behalf of companies and representative functions: None.

Dominik Koechlin

Board of Directors/supervisory mandates: Board of Trustees of LGT, member of the Board of Directors of EGL AG, Swissmetal Holding AG, Plant Health Care plc and several non-listed companies.
Activities on behalf of companies and representative functions: Member of the Board of the University of Basel.

Hariolf Kottmann

Board of Directors/supervisory mandates: Plansee AG, Deutsche Beteiligungs AG.
Activities on behalf of companies and representative functions: None.

Carlo G. Soave

Board of Directors/supervisory mandates: MonoSol LLC, USA.
Activities on behalf of companies and representative functions: None.

CROSS-INVOLVEMENT

There are no cross-involvements.

ELECTIONS AND TERMS OF OFFICE

The members of the Board of Directors are elected for a maximum of four years. Re-election is possible. The upper age limit is 70 years.

Board of Directors	*Year of birth*	*First elected*	*Elected until*
Peter R. Isler	1946	2004	2011
Klaus Jenny	1942	2005	2012
Peter Chen	1960	2006	2010
Rudolf Wehrli	1949	2007	2011
Jürg Witmer	1948	2007	2011
Hariolf Kottmann	1955	2008	2011
Dominik Koechlin	1959	2008	2011
Carlo G. Soave	1960	2008	2011

INTERNAL ORGANIZATIONAL STRUCTURE

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors consists of the Chairman, one or more Vice Chairmen, and the other members. In accordance with the Articles of Association, the number of members must be at least six and no more than ten. The members of the Board of Directors constitute the following Committees:

- Chairman's Committee
- Compensation Committee
- Audit Committee
- Technology and Innovation Committee

BOARD OF DIRECTORS – COMMITTEE RESPONSIBILITIES

Director	*Chairman's Committee*	*Audit Committee*	*Compensation Committee*	*Technology and Innovation Committee*
Jürg Witmer	■		□	
Rudolf Wehrli	□		■	
Peter Chen				■
Peter R. Isler		□		
Klaus Jenny	□	■	□	
Dominik Koechlin		□		
Hariolf Kottmann				□
Carlo G. Soave				□

■ Chairman
□ Member

BOARD OF DIRECTORS – COMMITTEES[1]

	Number of meetings	*Duration/h*	*CEO/CFO*	*Other attendees*
Board of Directors	10	6–8	yes	Executive Committee and General Counsel
Chairman's Committee	11	4–8	yes	Executive Committee when submitting own proposals
Audit Committee	7	3–4	CFO	Auditors, Risk Management, and General Counsel
Compensation Committee	4	2–3	no	Head of Group Human Resources
Technology and Innovation Committee	2	3	CEO	Head of Technology

[1] The development of the economic environment required more intense committee activity.

The **Board of Directors** appoints the Chairman, Vice Chairman/ Chairmen, and members of the committees. The Board of Directors meets at least once a quarter. At the invitation of the Chairman, the CEO, CFO, and other members of the Executive Committee and/or other employees and third parties regularly attend the meetings of the Board of Directors for the purpose of reporting or imparting information. Each committee has a written charter outlining its duties and responsibilities. The committees' charters are published on Clariant's website (www.clariant.com). The committees report on their activities and results to the Board of Directors. They prepare the business of the Board of Directors in their respective areas.

The **Chairman's Committee** (CC) comprises the Chairman, the Vice Chairman, and a third member of the Board of Directors. The Committee prepares the meetings of the Board of Directors. The CC meets as needed and generally before each meeting of the Board of Directors. The committee makes decisions on financial and other matters delegated by the Board of Directors in accordance with the Bylaws of the Board of Directors. In addition, the CC passes resolutions for which the Board of Directors is responsible when matters cannot be postponed. The CC draws up principles for the selection of candidates for election and re-election to the Board of Directors and for the CEO, and prepares the corresponding recommendations. Further, the CC considers and submits to the Board of Directors the CEO's proposals concerning candidates for Executive Committee positions.

The **Compensation Committee** (CoC) comprises three members of the Board of Directors. Its Chairman must be an independent, non-executive member of the Board of Directors. The CoC meets at least twice a year. The CoC draws up the principles for compensation of members of the Board of Directors and submits them to the Board of Directors for approval. It approves the employment contracts for the CEO and members of the Executive Committee. The CoC reviews bonus and share plans. Furthermore, the Committee reviews fringe benefit regulations, dismissal regulations, and contractual severance compensation packages with the CEO, members of the Executive Committee, Heads of Global Functions, and Regional Presidents.

The **Audit Committee** (AC) comprises three members of the Board of Directors. The Chairman must be an independent, non-executive member of the Board of Directors. A majority of the members of the AC must have financial experience. The AC reviews the activities of the external auditors, their collaboration with the internal auditors, and their organizational adequacy. It also reviews the performance, compensation, and independence of the external auditors as well as the performance of the internal auditors and reports back to the Board of Directors. Furthermore, the AC reviews the company's internal control and risk management systems and reviews compliance with the law and internal regulations – in particular, with the Code of Conduct. In collaboration with the Group's external and internal auditors and financial and accounting management, the AC reviews the appropriateness, effectiveness, and compliance of accounting policies and financial controls with applicable accounting standards. The AC meets at least six times a year. The Committee reviews and recommends the Group's financial statements for the first three quarters of each year and the release of the annual financial results to the Board of Directors for approval.

The **Technology and Innovation Committee** (TIC) comprises three members of the Board of Directors with experience in research, innovation management and technology. The TIC usually meets at least twice a year. The tasks of the TIC include assessing the company's innovative activities on behalf of the Board of Directors. The TIC also reviews measures to stimulate research and development and optimize innovative potential.

DEFINITION OF AREAS OF RESPONSIBILITY

In accordance with the law and the Articles of Association, the Board of Directors is the ultimate decision-making authority for Clariant Ltd in all matters except those decisions reserved by law or the articles of association for the shareholders. The Board of Directors has sole authority in particular for the following in accordance with and supplementary to Article 716a of the Code of Obligations (non-transferable and inalienable duties of the Board of Directors) and Article 23 of the Articles of Association:

- Providing the strategic direction of the Group;
- Approving the basic outline of the Group's organization and its governance;
- Supervising the overall business operations;
- Evaluating the performance of the CEO and members of the Executive Committee;
- Appointing and dismissing the CEO and members of the Executive Committee, the Head of Internal Audit, and other key executives;
- Approving the basic accounting system, financial planning, and control;
- Approving the Group's annual budget;
- Reviewing and approving the quarterly financial statements and results release of Clariant Ltd and the Group;
- Approving the consolidated financial statements of the Group for the business year;
- Approving major M&A transactions and financial transactions of considerable scope or involving special risks, in particular capital market transactions and other financing transactions (e.g. large loans) as well as changes in conditions associated therewith;
- Ensuring a management and corporate culture that is appropriate for the company's objectives;

- Ensuring an internal control system and adequate risk and compliance management in particular on financial matters, corporate governance and citizenship, personnel, and environmental matters;
- Ensuring succession planning and management development;
- Convening the Annual General Meeting (AGM), determining the items on the agenda and the proposals to be made to the AGM, and approving the Annual Report including Clariant Ltd's annual financial statements and the consolidated financial statements of the Group.

WORKING METHODS

The Board of Directors and its committees hold at least five regular meetings and extraordinary meetings by phone or in person as required. The company's strategy is reviewed and further developed once a year during a two-day meeting. Members of the Executive Committee are invited to attend the Board of Directors' meetings. The views of external and internal consultants are heard if necessary as a result of projects of considerable scope. In order to assess its working methods, the Board of Directors carries out a self-assessment once a year. In 2009, the Board met seven times in person and three times via telephone conferences. At each meeting it reviewed the progress of the restructuring program. At the July meeting the Board visited Clariant's US operations in Charlotte NC. and, in October, the key chemical site in Frankfurt. At both meetings the Board also met local management teams.

MANAGEMENT OF THE GROUP

The Board of Directors has delegated the executive management of Clariant Group to the CEO and the other members of the Executive Committee.

The Executive Committee is mainly responsible for implementing and monitoring the Group strategy for the financial and operational management of the Group and for the efficiency of the Group's structure and organization. The members of the Executive Committee are appointed by the Board of Directors based on recommendations made by the Chairman's Committee and the Compensation Committee. Subject to the responsibility of the Board of Directors or the Annual Shareholder Meeting, the CEO and, under his supervision, the Executive Committee are responsible for:

- Drawing up strategic plans and policies for approval by the Board of Directors;
- Implementing Group strategies and policies as well as strategies and action programs for individual businesses and subsidiaries;
- Managing the businesses and functions to ensure efficient operations including regularly assessing the achievement of goals;
- Regularly informing the Board of Directors and its committees of all matters of fundamental significance to the Group and its businesses;
- Ensuring compliance with legal requirements and internal regulations;
- Establishing a management and corporate culture in line with the company's objectives;
- Promoting an active internal and external communications policy;
- Appointing and dismissing senior management including appropriate succession planning.

The Executive Committee is supported by a Corporate Center which defines Group-wide policies and guidelines.

On January 1, 2010, the four divisions were dissolved and replaced by ten business units. These are the highest-level operating units within the Group. They have global responsibility for the activities assigned to them, particularly sales, marketing, product management, research and development, production, and technology. The Business Units also have global responsibility for short- and long-term sales revenue and earnings generated from the operations and assets assigned to them. This includes exploiting existing business potential, identifying new business opportunities, and pursuing the active management of their products and services portfolio.

The Business Units' activities are complemented and supported by global Group functions (e.g. procurement, finance, information technology, etc.) organized as service centers.

INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE EXECUTIVE COMMITTEE

The Board of Directors ensures that it receives sufficient information from the Executive Committee to perform its supervisory duties and make decisions that are reserved for the Board of Directors.

The Board of Directors obtains the information required to perform its duties through several means:

- The CEO and the CFO inform all directors regularly about current developments, including via the regular submission of written reports such as key performance indicators for each business;
- The minutes of committee meetings are made available to the directors;
- Informal meetings and teleconferences are held as required between the CEO and the members of the Chairman's Committee;
- By invitation, members of management are invited to attend Board of Directors' meetings to report on areas of the business under their responsibility;
- Directors are entitled to request information from members of the Executive Committee or any other Clariant senior manager.

BOARD COMMITTEES

Board Committees regularly meet with management to review the business, better understand applicable laws and policies affecting the Group, and support management in meeting the requirements and expectations of stakeholders.

The CFO and representatives of the external auditor are invited to meetings of the Audit Committee. Furthermore, the Heads of Internal Audit, Risk Management, and the company's General Counsel report on a regular basis to the Audit Committee.

The Audit Committee reviews financial reporting processes on behalf of the Board of Directors. For each quarterly and annual release of financial information, an internal team reviews the release for accuracy and completeness of disclosures and reports to the Audit Committee before publication of quarterly and annual releases.

INTERNAL AUDIT

The internal audit function carries out operational and system audits in accordance with an audit plan adopted by the Audit Committee and assists organizational units in the accomplishment of objectives by providing an independent approach to the evaluation, improvement, and effectiveness of their internal control framework. The internal audit function also prepares reports regarding the audits it has performed, and reports actual or suspected irregularities to the Audit Committee and the Chairman of the Board of Directors.

The Audit Committee regularly reviews the scope, plans, and results of the internal audit.

The Group pursues a risk-oriented approach to auditing and coordinates internal audit activities with the external auditors on a regular basis. Detailed information on Clariant's risk management system can be found on page 30 of this report.

THE EXECUTIVE COMMITTEE

The Executive Committee consists of the CEO, the CFO and two members.

MEMBERS OF THE EXECUTIVE COMMITTEE

At the end of 2009, the Executive Committee comprised the following members:

Hariolf Kottmann, German citizen

Chief Executive Officer (CEO)

Hariolf Kottmann earned his PhD in organic chemistry at the University of Stuttgart in 1984. In 1985, he launched his career at the former Hoechst AG in Frankfurt where he held several key management positions across the company's chemical divisions and functions. In 1996, he was appointed deputy head of the Basic Chemicals Division at Hoechst AG and took responsibility for the Inorganic Chemicals BU. In 1998, he joined Celanese Ltd in New Jersey (USA) as a member of the Executive Committee and Head of the Organic Chemicals business. In April 2001, he was appointed as a member of the Executive Committee of SGL Carbon AG where he was responsible for the Advanced Materials Division and the Eastern Europe and Asia regions until September 30, 2008. He was also in charge of the SGL Excellence, Technology and Innovation corporate functions. He became CEO of Clariant on October 1, 2008.

Patrick Jany, German citizen

Chief Financial Officer (CFO)

Patrick Jany is an economist and has been Chief Financial Officer at Clariant since January 1, 2006. In 1990, he joined Sandoz, one of Clariant's predecessor companies. He held various positions in finance and controlling at Sandoz and Clariant, including Chief Financial Officer for the ASEAN region and Head of Controlling for the Pigments & Additives Division. From 2003 to 2004, he was Head of Country Organization for Clariant in Mexico. Prior to his appointment as CFO, he was Clariant's Head of Corporate Development with responsibility for Group strategy and mergers and acquisitions.

Christian Kohlpaintner, German citizen

Christian Kohlpaintner studied chemistry at the Technical University of Munich and completed his PhD in 1992. Between 1993 and 1997 he worked in various research departments of Hoechst AG in Germany and in the USA. In 1997, he joined Celanese Ltd. and occupied a number of leadership roles at Celanese Chemicals Corporation. In 2002, he became Vice President Innovation of Celanese AG and Executive Director of Celanese Ventures Corporation. From 2003, he was a member of the Executive Committee of Chemische Fabrik Budenheim and, in 2005, he became CEO and Chairman of the Board. On October 1, 2009, he was appointed member of the Executive Committee of Clariant.

Mathias Lütgendorf, German citizen

Mathias Lütgendorf studied chemistry at the RWTH Aachen in Germany and gained his doctorate in 1984. In the same year, he joined Research and Development in the fine chemicals and dyes division of Hoechst AG. From 1990, he was responsible for a number of areas, mainly in operational fields. From 1995 until 1999, Mathias Lütgendorf was with DyStar, the 50:50 textile dyes joint venture of Bayer and Hoechst. He led the global operations of the dispersion dyes business unit and in 1999 became head of operations of the special dyes business unit as well as head of the Leverkusen site. From 2000, he was responsible for the global operations of DyStar (enlarged with the addition of BASF Textile Dyes). On April 1, 2009, he was appointed member of the Executive Committee of Clariant.

MANAGEMENT CHANGES IN 2009

In the reporting year, Peter Brandenberg, Okke Koo, Dominik von Bertrab, and Siegfried Fischer were replaced as members of the Executive Committee by Mathias Lütgendorf and Christian Kohlpaintner.

OTHER ACTIVITIES AND FUNCTIONS

The members of the Executive Committee neither undertake other activities nor hold consultancy functions or other offices.

MANAGEMENT CONTRACTS WITH THIRD PARTIES

There are no management contracts with third parties.

CONTRACTUAL ARRANGEMENTS FOR MEMBERS OF THE EXECUTIVE COMMITTEE

All members of the Executive Committee hold employment contracts with Clariant International Ltd, Clariant Group's management company. The contractual provisions are governed exclusively by Swiss law.

Contracts of the members of the Executive Committee have a standardized notice period of 12 months. This notice period sets out a detailed and exhaustive list of the claims associated with severance. Specific change of control agreements are in place with the CEO and with members of the Executive Committee. If Clariant should serve notice under a change of ownership, the value of the severance payment to the CEO amounts to 24 months and 18 months for members of the Executive Committee.

COMPENSATION, SHAREHOLDINGS AND LOANS

Refer to the Compensation Report and the Note 11 of the Financial Statements of Clariant Ltd.

SHAREHOLDERS' PARTICIPATION RIGHTS

Each registered share entitles the holder to one vote at General Shareholder Meetings. Shareholders have the right to receive dividends and hold such other rights as are granted by the Swiss Code of Obligations. However, only shareholders registered in the Clariant share register may exercise their voting rights.

VOTING RIGHTS AND REPRESENTATION

A registered shareholder may be represented at the Annual General Meeting by another shareholder with the right to vote, a legal representative, a corporate body of Clariant (Organvertreter), the independent proxy (unabhängiger Stimmrechtsvertreter), or a depositary (Depotvertreter). The shares held by any one shareholder may be represented by one representative only. Voting rights at Clariant are limited to 10 percent of the share capital in accordance with Article 12, paragraph 1 of the Articles of Association. There are no special rules for waiving any voting rights restrictions laid down in the Articles of Association. The Articles of Association do not contain any rules on participation at the Annual General Meeting that deviate from the standard terms proposed by law.

STATUTORY QUORUMS

The quorums laid down in the Articles of Association correspond to Article 704 of the Swiss Code of Obligations.

CONVOCATION OF THE ANNUAL GENERAL MEETING

The Articles of Association do not contain any rules that deviate from the standard terms proposed by law.

AGENDA FOR THE 2011 ANNUAL GENERAL MEETING

The Articles of Association do not contain any rules that differ from the legal provisions. Shareholders representing shares with a nominal value of CHF 1 million have the right to submit requests in writing at least 45 days prior to the Annual General Meeting for items to be included on the agenda for the 16th Annual General Meeting, to be held on March 31, 2011. Such requests must specify the item(s) to be included in the agenda and must contain a proposal on which the shareholder requests a vote.

ENTRY IN THE SHARE REGISTER

There are no special rules concerning deadlines for entry in the share register. For practical reasons, shareholders must be registered in the share register no later than March 28, 2011 in order to be entitled to vote in the Annual General Meeting on March 31, 2011. There are no voting rights restrictions except those mentioned above.

CHANGE OF CONTROL AND DEFENSE MEASURES

DUTY TO MAKE AN OFFER

The limit beyond which the duty to make an offer applies is the same as the statutory minimum, 33 percent.

CLAUSES ON CHANGES OF CONTROL

There are no clauses on changes of control.

AUDITORS

DURATION OF THE MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

PricewaterhouseCoopers has held the mandate since Clariant Ltd was established in 1995. The principle of rotation applies to the lead auditor, Matthias Jeger, who was appointed to the position in May 2004. The Audit Committee ensures that the lead auditor is rotated at least every seven years.

AUDITING HONORARIUM

PricewaterhouseCoopers received a fee of CHF 5.9 million for auditing the 2009 financial statements (2008: CHF 6.9 million).

ADDITIONAL HONORARIUMS

PricewaterhouseCoopers received a total fee of CHF 3.0 million for additional services (2008: CHF 6.1 million). These services comprise audit-related services mainly with respect to accounting advice and comfort letter procedures in the amount of CHF 0.9 million, tax services of CHF 2.0 million and other services of CHF 0.1 million.

SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

The Audit Committee of the Board of Directors is responsible for overseeing and evaluating the performance of the external auditors on behalf of the Board of Directors and recommends to the Board of Directors whether PwC should be proposed to the Annual General Meeting for re-election. Criteria applied for the performance assessment of PwC include technical and operational competence, independent and objective view, sufficient resources employed, focus on areas of significant risk to Clariant, ability to provide effective, practical recommendations and open and effective communication and coordination with the Audit Committee, Corporate Auditing and management. In the reporting year, there were seven joint meetings with external auditor representatives. These meetings lasted three to four hours on average and were in general attended by all members of the Audit Committee, the partner and the senior manager of the audit firm, Clariant's CEO (partial attendance), Clariant's CFO, the Group Accountant, the Head of Corporate Auditing, and the General Counsel. Depending on the matter in hand, the meetings were also attended by the Group Risk Manager. The auditors communicate audit plans and findings to the Audit Committee and issue reports to the Board of Directors in accordance with Article 728b of the Swiss Code of Obligations.

The Audit Committee's approval is required for all services provided by PwC exceeding a fee volume of CHF 0.2 million. These services may include audit services, audit-related services, tax services and other services. PwC and management report, on a regular basis, to the Audit Committee regarding the extent of services provided in accordance with this approval and the fees for the services performed to date.

RESPONSIBILITIES

Clariant asks each Executive Committee member and all members of Business Units and Business Services to assess the threats and opportunities within their areas of responsibility.

These leaders and their direct reports are responsible for identifying risks and taking measures to mitigate such risks. Risks and measures are reviewed at least twice a year.

ENTERPRISE RISK MANAGEMENT AND RISK REPORTING

The Enterprise Risk Management process is reviewed and monitored by a committee comprising the CFO, the General Counsel, and the Group Risk Manager. Process effectiveness and developments, as well as results of the mitigation measures for identified risks, are reported quarterly to the CEO and the Executive Committee, which report back to the full Board of Directors. There are annual reports to the Audit Committee. Significant issues or changes are reported immediately to the CEO.

Compensation Report

To attract and retain high calibre employees, Clariant must offer competitive compensation packages. In addition, to stimulate a culture of accountability, responsibility, and entrepreneurship, we need to reward performance and success. As a basic principle, all elements of the compensation package must be straightforward, transparent, and focused.

REMUNERATION, SHAREHOLDINGS AND LOANS

Given that the figures relating to the compensation of the Board of Directors and members of the Executive Committee are reported in some detail in the Notes to the Financial Statements of Clariant Ltd, there is no need to repeat the figures in the compensation report when a reference to the figures in the notes will suffice.

MEMBERS AND RESPONSIBILITIES OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee (CoC) is currently made up of three non-executive members of the Board of Directors: Rudolf Wehrli (Chairman), Jürg Witmer and Klaus Jenny. The Secretary to the CoC is the Head of Corporate Affairs/Human Resources. The chair of the CoC may invite the CEO to discussions on individual agenda items, taking into account potential conflicts of interest which would oblige him to abstain.

The CoC establishes principles for compensation of members of the Board of Directors and submits them to the Board of Directors for approval. The Committee approves the employment contracts with the CEO and members of the Executive Committee (EC). Also, the Committee takes note of employment contracts for Heads of Global Functions, Global Business Units and Regional Presidents, including the corresponding compensations. All appointments and dismissals that fall within the remit of the Board of Directors are submitted in advance to the CoC which makes, with regard to compensation aspects, a recommendation to the Board of Directors. In urgent and exceptional cases the Chairman's Committee (CC) may take such decisions.

The CoC reviews the global bonus, option and share plans, and makes recommendations to the Board of Directors. Furthermore, the Committee reviews fringe benefit regulations, dismissal regulations, and contractual severance compensation with the CEO, members of the EC, Heads of Global Functions, Global Business Units, and Regional Presidents.

The CoC holds at least two meetings per year as a rule:

a) Spring: Discussion regarding the executive bonus plan allocation, determination of bonus payments for members of the EC.
b) Summer: Fundamental matters concerning the Group's HR priorities.

The CoC also meets as needed. In 2009, the CoC met four times and held several bilateral discussions and telephone conferences.

BASIC PRINCIPLES

Clariant wishes to be an attractive employer with the ability to retain and motivate qualified employees and experts throughout the world.

In particular, Clariant's compensation policy for management is based on the following main principles:

a) The level of the total compensation should be competitive and in line with market conditions and enable Clariant to acquire international, experienced management and experts, and secure their longstanding commitment to the Group.
b) The structure of the total remuneration should be highly performance- and success-oriented in order to ensure that shareholder and management interests are aligned.
c) The compensation components should be straightforward, transparent, and focused, so as to guarantee all participants (shareholders, members of the Board of Directors, the CEO, and members of the EC) the highest degree of clarity and goal-orientation.

In order to uphold these principles, the CoC analyzes and discusses market developments at regular intervals and considers the implications of these developments for Clariant.

STRUCTURE OF COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS

The compensation structure for members of the Board of Directors is set out on the Remuneration of Members of the Board of Directors of Clariant AG Guidelines, dated April 2008.

According to the aforementioned Guidelines the remuneration of members of the Board of Directors is made up of the following components:

a) Annual basic fee.
b) Committee membership fees.
c) Share based remuneration.

The annual basic fee for a member of the Board of Directors is CHF 100 000 gross per financial year. The fee for a member of the CC is CHF 250 000 gross per financial year. The fee payable to the Chairman of the Board of Directors has been set at CHF 500 000 gross per financial year. For participation in committees there is a flat compensation fee of CHF 20 000 each for ordinary members and CHF 40 000 for the chair. In each case, the fees are paid in cash in equal parts in March and September.

Reflecting the economic situation as of spring 2009, the Board of Directors decided that there would not be a stock option program for Clariant for 2009.

The compensation for members of the Board of Directors is subject to the Swiss taxation and social security laws, with Clariant paying any employer contributions which are required. The members of the Board of Directors do not receive lump-sum reimbursement of entertainment expenses above and beyond actual expenditure on business trips. For detailed information on the compensation for the Board of Directors refer to Note 11 of the Notes to the Financial Report of Clariant Ltd on pages 119 to 122.

COMPENSATION OF MEMBERS OF THE EXECUTIVE COMMITTEE

The CoC regularly reviews the level and structure of the compensation packages for members of the EC. Various market analyses are used for these reviews:

a) Comparison of management remuneration packages of European chemical companies.
b) Comparison of management remuneration of Swiss-based multinational companies.

The bonus amounts of the total compensation packages are paid out in relation to the achieved results for a particular financial year. The actual bonus amounts may vary between zero and double these target values in the financial year in question.

OTHER PAYMENTS

The members of the EC participate in the pension schemes of the Clariant Group, notably the Clariant pension fund with an insured income of up to CHF 200 000 per annum, and the management pension fund with an insured income of up to a further CHF 595 000 per annum. The maximum insured income under the pension schemes therefore stands at CHF 795 000 per annum. The CEO is participating in Clariant's pension and insurance plans. Additional pension provisions must be accrued over time, in order to match contractual granted retirement plans provided by his former employers (detailed information on page 121).

Clariant's pension schemes conform with the legal framework of the occupational pension scheme (BVG). In future, the maximum contribution will be dynamically aligned with Art. 79c BVG. For members of the EC and all other Clariant employees, the insured income is defined as the basic salary plus the target cash bonus. Equity-based income components are not pensionable. The usual term insurance policies for death and disability form part of Clariant's pension schemes. The total employer contribution is approximately 11 percent of the insured income in the case of the Clariant pension fund, and 22 percent of the insured income in the case of the Clariant management pension fund. These contributions cover both the contributions to the formation of retirement capital, and the risk components. Both schemes are contribution-based; the management pension fund solely provides the members with retirement capital upon retirement, and does not incorporate pension payments.

VARIABLE REMUNERATION FOR MEMBERS OF THE EXECUTIVE COMMITTEE

The Clariant Executive Bonus Plan (CEBP) is based on the following key features:

a) The total amount of bonus payments distributed in a year is determined by the result achieved by the Clariant Group. The achievement is measured by three elements: financial result of Group, financial results of Divisions or organizational units and defined top priorities (Group Performance Indicators and strategic projects).
   The weighting of these three elements are as follows:
   - EC & Functions/Services: Group 75 percent & top priorities 25 percent
   - Businesses: Group 25 percent & divisions/organizational units 50 percent & top priorities 25 percent
b) The Clariant Group's result is determined with the aid of ROIC and cash flow targets.
c) The amount of an individual participant's bonus is determined by his/her individual target bonus and the contribution by his/her organizational unit (Division, Business Unit, function) to the overall result.
d) The target contribution of the business units and divisions is measured with reference to EBIT and developments in working capital (inventories, receivables from customers).
e) Only collective/management team-related target achievements can serve as the basis for individual bonus payouts. As a principle, an employee's performance will be honored in the annual review of total compensation and his/her career development.

The annual evaluation of the achievement of objectives and allocation of funds for the CEBP are conducted by the CoC in the February following the financial year in question, and approved by the Board of Directors. This system ensures that the bonus payments made to employees are closely aligned with the Group's overall result.

The Clariant Executive Bonus Plan provides for half of the total bonus payment for a year to be paid out in cash, and half in Clariant-registered shares. For detailed information regarding EC compensation, refer to Note 11 of the Financial Statements of Clariant Ltd on pages 119 to 122.

EQUITY-BASED REMUNERATION

Clariant uses equity-based income components for approximately 270 of its top managers worldwide. Under the CEBP, these employees receive 50 percent of their annual bonus in the form of shares which are blocked for three years and remain the property of Clariant. The shares later become the private property of the employees. Each year, the CoC determines an allotment rate derived from the average rate over three trading days in the second week of January. The number of allotted shares is calculated by dividing the value of the share bonus for a year by the allotment rate.

In addition, the term of Clariant's Stock Option Plan is five years, and membership is limited to the Board of Directors, the Board of Management and selected senior executives (approx. 1.6 percent of employees). The option term of five years is divided into a "Vesting Period" (first two years) and an "Exercise Period" (last three years). Eligible participants will receive a fixed number of options in accordance with an expected value point set by the Board of Directors. As a principle the strike price for the options is established by the Board of Directors at a level that is higher than the market value of the Clariant shares at grant ("out of the money options"). Eligibility and endowment will be reviewed each year that the scheme is in operation. Given Clariant's and the industry situation it was decided in spring not to grant any options for 2009.

If an employee should voluntarily leave Clariant before the waiting period expires, all rights to shares and stock options which have not yet been transferred at this point in time become invalid.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

The rules set out above governing the remuneration of the members of the EC are also applicable to the CEO. Additionally, to compensate for forfeited contractual entitlements of former employment contracts, the CEO received a management grant of 350 000 shares (of which 17 500 shares have been granted already in 2008). For detailed information on the remuneration of the CEO, refer to Note 11 of the Financial Statements of Clariant Ltd on pages 119 to 122.

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CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP

CONSOLIDATED BALANCE SHEETS at December 31, 2009 and 2008

ASSETS	Notes[1]	31.12.2009 CHF mn	%	31.12.2008 CHF mn	%
Non-current assets					
Property, plant and equipment	5	1 927		2 010	
Intangible assets	6	294		283	
Investments in associates	7	273		275	
Financial assets	8	19		21	
Prepaid pension assets	16	117		119	
Deferred income tax assets	9	75		67	
Total non-current assets		**2 705**	44.4	**2 775**	46.7
Current assets					
Inventories	10	853		1 373	
Trade receivables	11	1 102		1 110	
Other current assets	12	258		300	
Current income tax receivables		32		32	
Cash and cash equivalents	13	1 140		356	
Total current assets		**3 385**	55.6	**3 171**	53.3
Non-current assets held for sale	21	2	0.0	–	0.0
Total assets		**6 092**	100.0	**5 946**	100.0

EQUITY AND LIABILITIES	Notes[1]	31.12.2009 CHF mn	%	31.12.2008 CHF mn	%
Equity					
Share capital	14	921		921	
Treasury shares (par value)	14	–17		–15	
Other reserves		472		364	
Retained earnings		468		667	
Total capital and reserves attributable to Clariant shareholders		**1 844**		**1 937**	
Non-controlling interests		52		50	
Total equity		**1 896**	31.1	**1 987**	33.4
Liabilities					
Non-current liabilities					
Financial debts	15	1 553		1 297	
Deferred income tax liabilities	9	112		134	
Retirement benefit obligations	16	484		478	
Provision for non-current liabilities	17	241		191	
Total non-current liabilities		**2 390**	39.2	**2 100**	35.3
Current liabilities					
Trade payables	18	1 024		1 011	
Financial debts	19	132		268	
Current income tax liabilities		255		243	
Provision for current liabilities	17	395		337	
Total current liabilities		**1 806**	29.7	**1 859**	31.3
Total liabilities		**4 196**	68.9	**3 959**	66.6
Total equity and liabilities		**6 092**	100.0	**5 946**	100.0

[1] The Notes form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS *for the years ended December 31, 2009 and 2008*

	Notes[1]	**2009** CHF mn	%	2008 CHF mn	%
Sales	20	6 614	100.0	8 071	100.0
Costs of goods sold		–4 749		–5 757	
Gross profit		**1 865**	28.2	**2 314**	28.7
Marketing and distribution		–1 008		–1 216	
Administration and general overhead costs		–462		–421	
Research and development		–150		–184	
Income from associates	7	25		37	
Gain from the disposal of activities not qualifying as discontinued operations	22	8		20	
Restructuring and impairment		–298		–321	
Operating loss/income		**–20**	–0.3	**229**	2.8
Finance income	24	10		17	
Finance costs	24	–111		–155	
Loss/Income before taxes		**–121**		**91**	
Taxes	9	–73		–119	
Net loss from continuing operations		**–194**	–2.9	**–28**	–0.3
Discontinued operations					
Loss from discontinued operations	21	–		–9	
Net loss		**–194**	–2.9	**–37**	–0.5
Attributable to:					
Shareholders of Clariant Ltd		–206		–45	
Non-controlling interests		12		8	
Net loss		**–194**	–2.9	**–37**	–0.5
Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)					
Continuing operations	25	–0.91		–0.16	
Discontinued operations	25	0.00		–0.04	
Total		**–0.91**		**–0.20**	
Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)					
Continuing operations	25	–0.91		–0.16	
Discontinued operations	25	0.00		–0.04	
Total		**–0.91**		**–0.20**	

[1] The Notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *for the years ended December 31, 2009 and 2008*

	Notes[1]	**2009** CHF mn	2008 CHF mn
Net loss		**–194**	**–37**
Other comprehensive income:			
Net investment hedge	26	3	111
Currency translation differences		72	–400
Effect of the reclassification of foreign exchange difference on net investments in foreign entities		3	–1
Other comprehensive income for the period, net of tax		**78**	**–290**
Total comprehensive income for the period		**–116**	**–327**
Attributable to:			
Shareholders of Clariant Ltd		–129	–323
Non-controlling interests		13	–4

[1] The Notes form an integral part of the consolidated financial statements.

Changes in fair value of financial assets classified as available for sale amount to less than CHF 1 million in 2009 and 2008.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *at December 31, 2009 and 2008*

CHF mn			***Other reserves***						
	Total share capital	*Treasury shares (par value)*	*Share premium reserves*	*Cumulative translation reserves*	*Total other reserves*	*Retained earnings*	*Total attributable to equity holders*	*Non-controlling interests*	*Total equity*
Balance December 31, 2007	**978**	**–16**	**767**	**–125**	**642**	**709**	**2 313**	**59**	**2 372**
Total comprehensive income for the period				**–278**	**–278**	**–45**	**–323**	**–4**	**–327**
Dividends to non-controlling interests					–		–	–5	–5
Share capital reduction	–57				–		–57		–57
Employee share & option scheme:									
Effect of employee services					–	10	10		10
Treasury share transactions		1			–	–7	–6		–6
Balance December 31, 2008	**921**	**–15**	**767**	**–403**	**364**	**667**	**1 937**	**50**	**1 987**
Total comprehensive income for the period				**77**	**77**	**–206**	**–129**	**13**	**–116**
Dividends to non-controlling interests					–		–	–11	–11
Equity component of the convertible bond (see Note 15)			31		31		31		31
Employee share & option scheme:									
Effect of employee services					–	13	13		13
Treasury share transactions		–2			–	–6	–8		–8
Balance December 31, 2009	**921**	**–17**	**798**	**–326**	**472**	**468**	**1 844**	**52**	**1 896**

In 2008 Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 57.5 million.

CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended December 31, 2009 and 2008

	Notes[1]	2009 CHF mn		2008[2] CHF mn	
Net loss			**–194**		**–37**
Adjustment for:					
Depreciation of property, plant and equipment (PPE)	5	214		244	
Impairment and reversal of impairment		58		209	
Amortization of intangible assets	6	11		9	
Impairment of working capital		99		70	
Income from associates	7	–25		–37	
Tax expense		73		119	
Net financial income and costs		84		85	
Gain from the disposal of activities not qualifying as discontinued operations	22	–8		–20	
Loss on disposal of discontinued operations	21	–		9	
Other non-cash items		5		50	
Total reversal of non-cash items			**511**		**738**
Dividends received from associates	7		29		34
Interest paid			–72		–98
Interest received			9		15
Income taxes paid			–87		–109
Payments for restructuring[2]			–182		–81
Cash flow before changes in working capital and provisions			**14**		**462**
Changes in inventories			460		–136
Changes in trade receivables			14		153
Changes in trade payables			–11		–106
Changes in other current assets and liabilities			25		–43
Changes in provisions (excluding payments for restructuring)[2]			255		61
Cash flow from operating activities			**757**		**391**
Investments in PPE	5	–135		–270	
Investments in financial assets and associates		–6		–17	
Investments in other intangible assets	6	–35		–21	
Changes in current financial assets		6		135	
Sale of PPE and intangible assets		19		17	
Acquisition of companies, businesses and participations	23	–		–42	
Payments for the disposal of discontinued operations	21	–3		–14	
Proceeds from the disposal of subsidiaries and associates	22	40		31	
Cash flow from investing activities			**–114**		**–181**
Reduction of share capital to shareholders of Clariant Ltd		–		–57	
Equity component of the convertible bond		31		–	
Treasury share transactions		–12		–6	
Proceeds from financial debts		419		289	
Repayments of financial debts		–287		–552	
Dividends paid to non-controlling interests		–11		–5	
Cash flow from financing activities			**140**		**–331**
Currency translation effect on cash and cash equivalents			1		–32
Net change in cash and cash equivalents			**784**		**–153**
Cash and cash equivalents at the beginning of the period	13		**356**		**509**
Cash and cash equivalents at the end of the period	13		**1 140**		**356**

[1] The Notes form an integral part of the consolidated financial statements.

[2] Reclassified (see Note 1.07)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.01 – GENERAL INFORMATION

Clariant Ltd (the "Company") and its consolidated subsidiaries (together the "Group") are a global leader in the field of specialty chemicals. The Group develops, manufactures, distributes and sells a broad range of specialty chemicals which play a key role in its customers' manufacturing and treatment processes or add value to their end products. The Group has manufacturing plants around the world and sells mainly in countries within Europe, the Americas and Asia.

The Company is a limited liability company incorporated and domiciled in Switzerland. The address of its registered office is Rothausstrasse 61, CH-4132 Muttenz, Switzerland. The Company is listed on the Swiss Exchange.

The Board of Directors has approved the consolidated financial statements for issue on 11 February 2010. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for 29 March 2010.

1.02 – BASIS OF PREPARATION

The consolidated financial statements of the Clariant Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) and with the following significant accounting policies. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments at fair value through profit or loss).

The preparation of financial statements in conformity with the IFRS requires the use of estimates and assumptions. These affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and circumstances, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed under Note 3.

1.03 – INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN 2009

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

› IAS 1 (revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). This revised standard requires the presentation in a statement of changes in equity all owner changes in equity. All non-owner changes in equity are required to be presented separately in the statement of comprehensive income. As a result of this revised standard, the Group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented accordingly.

  As the new requirements concern disclosures only, they do not impact the Group's accounting policies.

› IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. This standard requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. The adoption of this standard does not have any material impact on the Group's financial accounts. In April 2009, IASB published an amendment to IFRS 8 as a part of its annual improvements project (effective for annual periods beginning on or after 1 January 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Group has adopted this amendment early.

› IAS 23 (revised) Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). This revised standard requires that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalized as part of the costs of that asset. The adoption of the revised IAS 23 did not have any material impact on the Group's financial statements.

- IFRS 2 (amended), Share-based Payments (effective for accounting periods beginning on or after 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payments are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

- IFRS 7 (amendment), Financial Instruments – Disclosures (effective for accounting periods beginning on or after 1 January 2009) requires enhanced disclosures about fair value measurement and liquidity risk. The amendment requires disclosures of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- Annual improvements to IFRS (mostly effective as of 1 January 2009) – As a part of the annual improvement project the IASB issued minor, non-urgent changes to 20 International Financial Reporting Standards in May 2008. These changes did not have any impact on the Group's accounts.

The following new interpretations to existing standards became effective for accounting periods beginning on or after 1 January 2009, but do not have any material impact on the Group's accounts:

- IFRIC 9, Reassessment of Embedded Derivatives (amended, effective for annual periods ending on or after 30 June 2009);
- IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

1.04 – INTERNATIONAL FINANCIAL REPORTING STANDARDS NOT YET EFFECTIVE

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods. The Group has not early adopted them, but they would not have had any material impact on the Groups financial accounts of 2009. These are the following standards and interpretations:

- IFRS 3 (revised), Business combinations (effective for accounting periods beginning on or after 1 July 2009);
- IAS 27 (amended), Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
- IFRIC 17, Distributions of Non-cash Assets to owners (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18, Transfer of Assets from Customers (effective for annual periods beginning on or after 1 July 2009);
- IFRS 2 (amendments), "Group cash-settled and share-based payment transactions" (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 14, IAS 19, Limits on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction (effective for annual periods beginning on or after 1 January 2011);
- IAS 24 (revised), Related Party Disclosures (effective for annual periods beginning on or after 1 January 2010);
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after 1 July 2010);
- IFRS 9, Financial Instruments (effective for annual periods beginning on or after 1 January 2013);
- Annual improvements to IFRS (mostly effective 1 January 2010). As part of the annual improvement project the IASB issued minor, non-urgent changes to 12 International Financial Reporting Standards in April 2009. The Group has early adopted the amendment to IFRS 8 operating segments regarding disclosure of information about segment assets and reports externally also the asset numbers reported for internal purposes. All the other changes are not expected to have any material impact on the Group's accounts.

With the exception of IFRS 8 (amendment), the above mentioned standards and interpretations will be adopted as they become effective.

1.05 – SCOPE OF CONSOLIDATION

› **Subsidiaries:** Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies. These entities are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which the control is transferred to the Group and cease to be consolidated from the date the control is terminated.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The costs of an acquisition are measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of the acquisition, irrespective of the extent of a non-controlling interest. The excess of the costs of an acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the costs of acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

› **Transactions with non-controlling interests:** The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the income statement. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

› **Investments in associates:** Associates are entities where the Group has between 20 percent and 50 percent of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

All associates use the same set of accounting policies (IFRS) that are applied to the consolidated accounts of the Group.

1.06 – PRINCIPLES AND METHODS OF CONSOLIDATION

The annual closing date of the individual financial statements is 31 December. The consolidated financial statements are prepared by applying uniform presentation and valuation principles.

Intercompany income and expenses, including unrealized gross profits from internal Group transactions and intercompany receivables and payables, are eliminated. The results of non-controlling interests are separately disclosed in the income statement and balance sheet.

1.07 – RECLASSIFICATION

The presentation of the cash flow statement was changed to provide separate information about payments for restructuring in "Cash flow before changes in working capital and provisions". Previously, the payments for restructuring were included in the line "Changes in provisions". The prior year presentation has been reclassified as follows: "Changes in provisions" adjusted from CHF –20 million to CHF 61 million; "Payments for restructuring" of CHF –81 million, the "Cash flow before changes in working capital and provisions" has changed from CHF 543 million down to CHF 462 million. This reclassification had no impact on the balance sheets.

1.08 – REVENUE RECOGNITION

Sales of goods are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party. They are reported net of sales, taxes and rebates. Provisions for rebates to customers are recognized in the same period in which the related sales are recorded, based on the contract terms.

Interest income is recognized on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity when it is determined that such income will accrue to the Group. Dividends are recognized when the right to receive payment is established.

1.09 – EXCHANGE RATE DIFFERENCES

› **Functional and presentation currency:** Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs, which is the functional and presentation currency of the parent.

› **Transactions and balances:** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in "other comprehensive income" as qualifying cash flow hedges and net investment hedges. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

› **Group companies:** Income statements and cash flow statements of foreign entities are translated into the Group's presentation currency at sales weighted average exchange rates for the year and their balance sheets are translated at the exchange rates prevailing on 31 December. Exchange rate differences arising on the translation of the net investment in foreign entities and on borrowings and other currency instruments designated as hedges of such investments are taken to "other comprehensive income". Net investments also include loans for which settlement is neither planned nor likely to occur in the foreseeable future. When a foreign entity is sold, such exchange rate differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign entities after 31 March 2004 are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.10 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at historical acquisition or production costs and depreciated on a straight-line basis to the income statement, using the following maximum estimated useful lives in accordance with the Group guidelines:

› Buildings	40 years
› Machinery and equipment	16 years
› Furniture, vehicles, computer hardware	5 to 10 years
› Land is not depreciated	

Financing costs that are directly associated with the acquisition, construction or production of qualifying property, plant and equipment for which commencement date for the capitalisation is after 1 January 2009 are capitalized as a part of the costs of these assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the costs of the item can be measured reliably. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

1.11 – INTANGIBLE ASSETS

Goodwill represents the excess of the costs of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Goodwill on acquisitions of associates is included in the investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

Trademarks and licenses are capitalized at historical costs and amortized on a straight-line basis to the income statement over their estimated useful lives, with a maximum of ten years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis to the income statement over their estimated useful lives (three to five years). Costs associated with developing and maintaining software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

1.12 – IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life, and thus are not subject to amortization, are tested annually for impairment. Property, plant and equipment and other non-current assets, including intangible assets with a finite useful life, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing impairment, assets are allocated to the lowest level in proportion to the actual use of the asset by the respective business, for which there are to a large extent separately identifiable cash flows (cash generating unit).

An impairment loss is recognized as an expense in the income statement and is first allocated to the goodwill associated with the cash generating unit and then to the other assets of the cash generating unit. An impairment loss may be reversed, for assets excluding goodwill, in subsequent periods if and only if there is a change in the estimates used to determine the asset's recoverable amount.

1.13 – INVENTORIES

Purchased goods are valued at acquisition costs, while self-manufactured products are valued at manufacturing costs including related production overhead costs. Inventory held at the balance sheet date is primarily valued at standard cost, which approximates actual costs on a weighted average basis. This valuation method is also used for valuing the cost of goods sold in the income statement. Adjustments are made for inventories with a lower net realizable value. Unsaleable inventories are fully written off. These adjustments are recorded as valuation allowances, which are deducted directly from the inventory value in the balance sheet. The allowances are reversed when the inventories concerned are either sold or destroyed and as a consequence are removed from the balance sheet.

1.14 – TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment. An allowance for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the allowance is recognized in the income statement.

1.15 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits and calls with banks, as well as short-term investment instruments with an initial lifetime of 90 days or less. Bank overdrafts are shown within financial debt in current liabilities on the balance sheet.

1.16 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Under IAS 39 derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Depending on the type of the derivative financial instrument, fair value calculation techniques include, but are not limited to, quoted market value, present value of estimated future cash flows (e.g. interest rate swaps) or corresponding exchange rates at the balance sheet date (e.g. forward foreign exchange contracts). The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting.

On the date a derivative contract is entered into, Clariant designates certain derivatives as either a) a hedge of the fair value of a recognized asset or liability (fair value hedge), b) a hedge of a forecast transaction (cash flow hedge) or firm commitment or c) a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives in fair value hedges that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges are included as a hedging reserve in shareholders' equity. Where the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as income or expense in the same period in which the forecast transaction affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Hedges of net investments in foreign entities are accounted for similar to cash flow hedges. Clariant hedges certain net investments in foreign entities with foreign currency borrowings and cross-currency swaps. All foreign exchange gains and losses on the effective portion of the hedge are recognized in "other comprehensive income" and included in cumulative translation differences. Any gains or losses relating to an ineffective portion are recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement when the committed or forecast transaction is ultimately recognized in the income statement. However, if a forecast or committed transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the income statement.

Certain derivative instruments, while providing effective economic hedges under Clariant policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for cash flow hedge accounting under IAS 39 are recognized immediately in the income statement.

Financial instruments are used in the normal course of the business to reduce risk arising from currency translation and interest rate or price movements. Clariant manages and records centrally its cover of various positions arising from existing assets and liabilities as well as future business transactions. To minimize counterparty risk, Clariant enters into financial instruments only with reputable international banks. The result of using financial instruments in Clariant's risk management program is permanently monitored, checked and communicated to Group management.

1.17 – LEASES

Leases under which the Clariant Group assumes substantially all of the risks and benefits of ownership are classified as finance leases. At the inception of the lease, the leased asset and a lease liability are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. In subsequent periods the leased asset is depreciated on a straight-line basis, like other property, plant and equipment, over the shorter of its estimated useful life or the lease term. The depreciation amount of the asset and the interest amount on the finance lease liability are charged to the income statement.

A lease is classified as an operating lease if the substance of the transaction does not meet any of the requirements of a finance lease. Lease payments under an operating lease are charged to the income statement on a straight-line basis over the term of the lease.

1.18 – CURRENT INCOME TAX

The taxable profit (loss) of Group companies, on which the reporting period's income tax payable (recoverable) is calculated using applicable local tax rates and is determined in accordance with the rules established by the taxation authorities of the countries in which they operate. Current income taxes for current and prior periods, to the extent they are unpaid, are recognized as liabilities. In case income taxes already paid in respect of current and prior periods exceed the income tax liability amount of those periods, the exceeding amounts are recognized as assets. Current income tax receivables and current income tax liabilities are offset if there is a legally enforceable right to set off the recognized amounts and if there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

1.19 – DEFERRED INCOME TAX

Deferred income tax is calculated using the comprehensive liability method. This method calculates a deferred tax asset or liability on the temporary differences that arise between the recognition of items in the balance sheets of the Group companies used for tax purposes and the one prepared for consolidation purposes. An exception is that no deferred income tax is calculated for the temporary differences in investments in Group companies and associates, provided that the investor (parent company) is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Furthermore, withholding taxes or other taxes on the eventual distribution of retained earnings of Group companies are only taken into account when a dividend has been planned, since generally the retained earnings are reinvested.

Deferred taxes, calculated using applicable local tax rates, are included in non-current assets and non-current liabilities, with any changes during the year recorded in the income statement. Changes in deferred taxes on items that are recognized in equity are recorded in "other comprehensive income".

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences or the tax losses carried forward can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority.

1.20 – EQUITY COMPENSATION BENEFITS

In 2005 Clariant replaced its two equity compensation plans, the Clariant Executive Stock Option Plan (CESOP) and the Management Stock Incentive Plan (MSIP), by the Clariant Executive Bonus Plan (CEBP). Under this new plan, specific groups of executives and managers are granted a certain number of registered shares in Clariant Ltd. The options and shares granted under the old plans up to February 2005 continued to vest. In 2008 Clariant established a new stock option plan for the members of the management and the Board of Directors. The options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd at a predetermined strike price. The fair value of the employee services received in exchange for the grant of the shares and options is recognized as an expense. The total amount to be expensed over the vesting and measurement periods is determined by reference to the fair value of the shares and options granted. An adjustment is made for dividends not distributed during the vesting period. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of shares and options expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

1.21 – OBLIGATIONS FOR PENSIONS AND SIMILAR EMPLOYEE BENEFITS

Group companies operate various pension schemes. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For **defined contribution plans,** the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Contributions to defined contribution plans are recorded in the income statement in the period to which they relate.

For **defined benefit plans,** the amount to be recognized in the provision is determined using the Projected Unit Credit Method. According to this method, each period of employee service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Actuarial valuation techniques that take into consideration the demographic and financial assumptions are used to determine the carrying value of the net post-employment liability. Independent actuaries perform these valuations on a regular basis, at least every three years.

The portion of the actuarial gains and losses to be recognized as income or expense is the excess of the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year over the greater of 10 percent of the present value of the defined benefit obligation at that date and 10 percent of the fair value of any plan assets at that date, divided by the expected average remaining working lives of the employees participating in the plan.

Some Group companies provide **post-retirement health care benefits** to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

Termination benefits are provided for in accordance with the legal requirements of certain countries. Termination benefits are payable when the employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the balance sheet date are discounted to present value. The charges for defined benefit plans, defined contribution plans and termination benefits are included in personnel expenses and reported in the income statement under the corresponding functions of the related employees and in expenses for restructuring and impairment.

Other **long-term employee benefits** are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related services. These include long-term compensated absences such as long-service or sabbatical leave and jubilee or other long-service benefits. The accounting policy for other long-term employee benefits is equal to that for post-employment benefits, with the exception that actuarial gains and losses and past service costs are recognized immediately in the income statement.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

1.22 – PROVISIONS

Provisions are recognized when the Group has a binding present obligation. This may be either legal because it derives from a contract, legislation or other operation of law, or constructive because the Group created valid expectations on the part of third parties by accepting certain responsibilities. To record such an obligation it must be probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognized as a provision and the indicated time range of the outflow of economic benefits are the best estimate (most probable outcome) of the expenditure required to settle the present obligation at the balance sheet date. The non-current provisions are discounted if the impact is material.

1.23 – RESEARCH AND DEVELOPMENT

Research and development expenses are capitalized to the extent that the recognition criteria according to IAS 38 are met. The Group considers that regulatory and other uncertainties inherent in the development of key new products preclude it from capitalizing the development costs. At the balance sheet date, no research and development projects met the recognition criteria. Laboratory buildings and equipment included in property, plant and equipment are depreciated over their estimated useful lives. The reason for this practice is the structure of research and development in the industries that Clariant engages in, making it difficult to demonstrate how singular intangible assets will generate probable future economic benefits.

1.24 – SEGMENT REPORTING

Segment information is presented in the same manner as in the internal reporting on behalf of the chief operating decision maker. The chief operating decision-maker, responsible for strategic decisions, for the assessment of the segments' performance and for the allocation of resources to the segments, is the Executive Committee.

Based on internal management structures the world-wide activities of Clariant are divided into the following four divisions, which are at the same time the reporting segments of the Group:

- Textile, Leather and Paper Chemicals (TLP)
- Pigments & Additives (PA)
- Functional Chemicals (FUN)
- Masterbatches (MB)

These divisions can be described as follows:

The **Textile, Leather & Paper Chemicals Division** is a supplier of specialty chemicals and dyes for the textile, leather and paper industries. Textile dyes include dispersion, reactive, acid, metal complex and sulfur dyes. The Textile Business encompasses special chemicals for pre-treatment, dyeing, printing and finishing of textiles. Optical brighteners and chemicals for functional treatment are also part of the range. The Leather Business produces chemicals and colorants for tanning, re-tanning, dyeing and finishing. Its offering includes wet-end dyes and auxiliaries, wet-end chemicals and finishing chemicals. The Paper Business supplies paper dyes, optical brighteners and process and pulping chemicals.

The **Pigments & Additives Division** develops and produces colorants for paints and coatings, for plastics and for special applications. The product range includes high-performance pigments, pigment preparations and dyes to meet the specific demands of, for example, 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 light and weather resistance as well as heat resistant properties in plastics and coatings. Non-halogenated flame retardants are used in protective coatings, resins, thermoplastics and polyester fibres. The division's portfolio also includes high-quality waxes based on various materials.

The **Functional Chemicals Division's** products are based on surfactants and polymers. The Detergents Business, which offers anionic and cationic surfactants, as well as bleach activators, is a partner to the detergent industry. Performance Chemicals supplies such different industries as personal care products, crop protection, paints, lacquers and plastics. The Process Chemicals Business markets products for the production and refining of oil and natural gas and for metal-working, mining and the aerospace and automotive industry.

The **Masterbatches Division** supplies color and additive concentrates and special mixtures of these components used by manufacturers of plastic goods. As a service, customers are supported in dealing with such issues as complex local and international regulations, multi-continent manufacturing, speed-to-market, pricing pressures and the demands of progressively more sophisticated consumers.

Corporate: Income and expenses relating to Corporate include the costs of the Group headquarters and those of corporate coordination functions in major countries. In addition, Corporate includes certain items of income and expense, which are not directly attributable to specific divisions.

The Group's divisions are operating segments that offer different products. These operating segments are managed separately because they manufacture, distribute and sell distinct products, which require differing technologies and marketing strategies. These products are also subject to risks and returns that are different from those of other business segments.

After the introduction of IFRS 8, Operating Segments, the composition of the reportable segments did not change compared to the previously reported segment information.

Segment revenue is revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the company income that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Inter-segment sales are determined on an arm's length basis.

The segment net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Usually, no allocation of Corporate items is made to the segments. Corporate assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

The Group has adopted early the amendment to IFRS 8 in regard of the segment assets. The total assets are not included in the measure of segment assets reviewed by the Executive Committee and are not regularly provided to the Executive Committee.

The Executive Committee assesses the performance of the operating segments based on income statement parameters like third party sales, EBITDA, and operating income. Interest income, expenditure and taxes are not allocated to the segments. The return on the capital invested in each segment is measured by the Return on Invested Capital (ROIC).

1.25 – TREASURY SHARES

Treasury shares are deducted from equity at their par value of CHF 4.00 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares are recorded in retained earnings.

1.26 – DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.27 – NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

1.28 – SHARE CAPITAL AND OTHER RESERVES

All issued shares are ordinary shares and as such are classified as equity.

Incremental costs, directly attributable to the issue of new shares or options, are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Other reserves comprise the following items:

› **Share premium:** The share premium comprises excess price paid over the par value of the share at the time of issuance of the share capital. It also includes the equity component of the convertible debts issued in 2009.

› **Cumulative translation reserve:** The translation reserve comprises the foreign exchange differences arising on the translation of the financial statements of the foreign subsidiaries stated in a currency other than the Group's functional currency. In addition the foreign exchange differences arising on the translation of financial liabilities denominated in a currency other than the functional currency of the parent company and which are at the same time designated as a hedge of a net investment in a foreign entity, are also reported here.

1.29 – FINANCIAL DEBT

Financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value, is recognized in the income statement over the period of the financial debt.

Financial debt is classified as a current liability where it is due within twelve months from the balance sheet date. This includes the portion of non-current debt that is due within twelve months. Financial debt is classified as a non-current liability where the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

1.30 – INVESTMENTS

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, investments held to maturity and financial assets available for sale. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date.

› **Financial assets at fair value through profit or loss:** This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by the management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months of the balance sheet date.

› **Loans and receivables:** These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money and goods directly to a debtor with no intention of trading the receivable. They are included in current assets in the balance sheet.

› **Held-to-maturity investments:** These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

› **Available-for-sale financial assets:** These are non-derivatives that are either designated to that category or not classified to any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognized on settlement date, which is the date on which the Group receives or delivers the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized costs using the effective interest rate method. Realized and unrealized gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized costs of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in "other comprehensive income". Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in "other comprehensive income". When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent at arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition costs and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

1.31 – EMISSION RIGHTS

In 2005 the European Union started a system whereby companies are granted certain amounts of rights to emit carbon dioxide. These rights are initially granted free of charge and can be exchanged with other companies. At present the accounting for such emission rights is not clearly regulated by IFRS. Clariant accounts for these rights as follows:

At the time the Group receives emission rights from the governments, these are recognized as intangible assets at fair value (usually represented by the market price). The difference between the amount paid which is usually nil, since the rights are assigned by the governments free of charge, and the fair value of the emission right, is recognized as a liability.

When the rights are used in operating activities, this is recognized by recording an expense based on the actual emission in the income statement and a liability in the balance sheet. At the same time, the liability recorded on initial recognition of the emission right is released proportionally to the income statement. At the end of the reporting period, the liability recorded as a result of the use of the emission rights and the asset initially recognized for emission rights, are offset against each other. If any emission rights are purchased from third parties, they are recorded at historical costs which is usually the fair value.

The carrying values of emission rights and the corresponding liability are not revalued due to the subsequent fluctuations in the market price.

When emission rights are sold, the respective amount recognized as an intangible asset and the respective amount recognized as a liability in the balance sheet are derecognized. The difference between the sale price obtained in the disposal and the net amount of the intangible asset and the liability derecognized is recorded as an income or an expense in the income statement.

2. ENTERPRISE RISK MANAGEMENT

Clariant's Enterprise Risk Management approach is designed to clarify the level of risk taken and encourage entrepreneurial behavior throughout the Group in order to reduce risks to an acceptable level. The process considers opportunities and threats to the short- and medium-term objectives of Clariant as decided by the Board of Directors.

The objectives of Clariant's Enterprise Risk Management are to ensure coordination and development of Risk Management activities through all decision levels within Clariant, to ensure that as part of the risk assessment all significant risks are communicated to the Executive Committee, the CEO and the Board of Directors, to communicate the process to the Board of Directors via the Audit Committee and to inform, train and motivate Clariant staff.

Risk Management Policy and Guideline are electronically available to Clariant managers worldwide.

Each member of the Executive Committee as well as the heads of Business Units and functions assesses threats and opportunities arising in their areas of responsibility. Each of the above and their direct reports are risk owners responsible for the identified risks and the measures taken. Measures are reviewed at least twice a year for any changes and the assessment of the effectiveness of measures.

Risk assessments as well as measures taken shall be linked to the short- and medium-term objectives for Clariant overall and the objectives of the individual making the assessment.

The risk assessment is made on an annual basis with quarterly updates and interim reporting of issues that arise, or risks that have changed substantially. The process has an initial and an update cycle designed to deliver up-to-date results in time for the preparation of the Annual Report.

Risk management reports are extended regularly to the Audit Committee as well as the CEO and the Executive Committee. A reporting structure is in place to inform the CEO of significant issues or changes.

Once a year, the Audit Committee considers the process, developments, and results of the mitigation measures for identified risks. The Audit Committee then reports to the Board of Directors on the efficacy of the Risk Management process.

2.1 – ENVIRONMENTAL AND PRODUCT RISKS

Aiming to minimize possible risks for the environment, safety and health, the relevant parameters from all the Group's sites are analyzed centrally to reduce the overall risk to an acceptable level. In order to protect itself against risks arising from public and product liability, the Group concludes insurance policies and books provisions. Potential inherited liabilities arising from acquisitions or disposals are limited through contractual agreements whenever possible.

2.2 – LITIGATION

The outcome of litigation in legal matters including tax law, patent law, product liability, competition, or environmental protection cannot always be predicted. For litigation which is not covered by insurance, appropriate provisions are booked.

2.3 – INFORMATION TECHNOLOGY RISKS

Business-critical systems are operated in a central computer center with two physically separated server parks. The Group's global network is managed centrally and its parallel architecture is able to deal with failures or breakdowns. Reliable and permanently updated tools guard against virus attacks. Emergency procedures are practiced regularly.

2.4 – FINANCIAL RISK

Financial risks and their management are described in detail in the following note.

3. FINANCIAL RISK MANAGEMENT

3.1 – FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including currency rate risk, interest rate risk and price risk), credit risk, liquidity risk and settlement risk. The Group's overall Risk Management Program focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance at reasonable hedging costs. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Group Management and the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. Written principles for overall foreign exchange risk, credit risk, use of derivative financial instruments, non-derivative financial instruments and investing excess liquidity (counterparty risk) are in place.

Market risk

Foreign exchange risk

› **Exposure to foreign exchange risk:** The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the euro and the US dollar. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations, when they are denominated in a currency that is not the respective subsidiary's functional currency.

› **Foreign exchange risk management:** To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward contracts and FX options, according to the Group's foreign exchange risk policy. Group Treasury is responsible, in close co-ordination with the Group's operating units, for managing the net position in each foreign currency by performing appropriate hedging actions.

The Group's foreign exchange risk management policy is to selectively hedge net transaction foreign exchange exposures in each major currency according to defined hedging ratios.

Currency exposures arising from the net assets of the Group's foreign operations are managed primarily through borrowings denominated in the relevant foreign currency.

As per December 31, 2009, a bond denominated in euro with a notional amount of EUR 600 million and a certificate of indebtedness denominated in euro with a notional amount of EUR 100 million were designated as hedges of a net investment. As per December 31, 2009 the unrealized foreign exchange gain, resulting from the translation of the bond into Swiss francs, amounted to CHF 3 million (2008: a gain of CHF 100 million) and the gain resulting from the translation of the certificate of indebtedness into Swiss francs amounted to less than CHF 1 million (2008: a gain of CHF 11 million). Both gains were recognized in the cumulative translation reserves in the shareholders' equity.

The purpose of this hedge is to offset part of the foreign exchange risk lying with the Group's European subsidiaries and resulting from movements in the exchange rate euro/Swiss francs.

› **Foreign exchange risk sensitivity:** The estimated percentage change of the following foreign exchange rates used in this calculation is based on the foreign exchange rate volatility for a term of 360 days observed at December 31, 2009.

At December 31, 2009, if the euro had strengthened/weakened by 8 percent (2008: 8 percent) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 13 million higher/lower (2008: CHF 10 million), mainly as a result of foreign exchange gains/losses on translation of euro-denominated cash and cash equivalents, intragroup financing and trade receivables. Equity would have been CHF 81 million lower/higher (2008: CHF 80 million), arising mainly from foreign exchange gains/losses on translation of the euro-denominated financial liabilities.

At December 31, 2009, if the US dollar had strengthened/weakened by 15 percent (2008: 13 percent) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 32 million higher/lower (2008: CHF 22 million) mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade receivables.

Interest rate risk

› **Exposure to interest rate risk:** Financial debt issued at variable rates and cash and cash equivalents expose the Group to cash flow interest rate risk; the net exposure as per December 31, 2009 was not significant. Financial debt issued at fixed rates does not expose the Group to fair value interest rate risk because it is recorded at amortized costs. At the end of 2009, 100 percent of the net financial debt was at fixed rates (2008: 96 percent).

› **Interest rate risk management:** It is the Group's policy to manage the cost of interest using fixed and variable rate debt and interest-related derivatives. Group Treasury monitors the net debt fix-to-float mix on an ongoing basis.

› **Interest rate risk sensitivity:** To calculate the impact of a potential interest rate shift on profit and loss, a weighted average interest rate change was determined, based on the terms of the financial debt issued at variable rates, cash and cash equivalents and the movements of the corresponding interest rates (interest rates comparison between end of 2009 and end of 2008):

At December 31, 2009, if the Swiss franc interest rates on net current financial debt issued at variable interest rates had been 134 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 1.9 million lower/higher (2008: CHF 1.2 million for a Swiss franc interest rate shift of 229 basis points).

At December 31, 2009, if the US dollar interest rates on net current financial debt issued at variable interest rates had been 50 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 0.2 million lower/higher (2008: CHF 2.9 million for a US dollar interest rate shift of 416 basis points).

Other price risk

With regard to the financial statements as per December 31, 2009 the Group was not exposed to other price risks in the sense of IFRS 7, Financial Instruments: Disclosures.

Credit risk

› **Exposures to credit risk:** Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. As per December 31, 2009 and December 31, 2008, the Group had no significant concentration of credit risk regarding customers due to diversity in size of customers, risk categories and geographical distribution.

› **Credit risk management:** The Group has a Group credit risk policy in place to ensure that sales are made to customers only after an appropriate credit limit allocation process.

Financial instruments contain an element of risk that the counterparty may be unable to either issue securities or to fulfil the settlement terms of a contract. Clariant therefore only cooperates with counterparties or issuers that are at least A-rated. The cumulative exposure to these counterparties is constantly monitored by the Group management, therefore there is no expectation of a material loss due to counterparty risk in the future.

The Group maintains a cash pooling structure with a leading European bank, over which most European subsidiaries execute their cash transactions denominated in euro. As a result of this cash pool the Group at certain times has substantial current financial assets and at other times substantial current financial liabilities. In view of the bank being rated AA by the most important rating agencies, Clariant does not consider this to pose any particular counterparty risk.

The table below shows in percent of total cash and cash equivalents the share deposited with each of the three major counterparties at the balance sheet date (excluding the bank managing the euro cash pool):

Counterparty	*Rating*	***31.12.2009***	*31.12.2008*
Bank A	AA+	11.7%	–
Bank B	A+	21.4%	33.4%
Bank C	A	8.6%	8.0%
Bank D	AA–	–	3.4%

Liquidity risk

› **Liquidity risk management:** Cash flow forecasting is performed in the subsidiaries of the Group and in aggregate by Group Treasury. Group Treasury monitors the forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed and uncommitted borrowing facilities. At all times the Group aims to meet the requirements set by the covenants of any of its borrowing facilities. Management therefore takes into consideration the Group's debt financing plans and financing options.

› Cash which is not needed in the operating activities of the Group is invested in short-term money market deposits or marketable securities. At December 31, 2009, the Group held money market funds of CHF 388 million (2008: CHF 70 million) but no other liquid assets (2008: 0 CHF).

The table below analyzes the maturity profile of the Groups financial liabilities. The amounts disclosed are the contractual undiscounted cash flows and do therefore not reconcile with the financial liabilities disclosed in the balance sheet.

As per December 31, 2009 *CHF mn*	*Less than 1 year*	*Between 1 and 2 years*	*Between 2 and 5 years*	*Over 5 years*
Borrowings	131	150	1 395	–
Interest on borrowings	61	60	110	–
Finance lease liabilities	3	3	5	16
Trade and other payables	720	–	–	–
Derivative financial instruments	4	–	–	–
Financial guarantees contracts	–	–	–	–

As per December 31, 2008 *CHF mn*	*Less than 1 year*	*Between 1 and 2 years*	*Between 2 and 5 years*	*Over 5 years*
Borrowings	265	3	1 266	–
Interest on borrowings	58	58	142	–
Finance lease liabilities	3	4	5	18
Trade and other payables	729	–	–	–
Derivative financial instruments	1	–	–	–
Financial guarantees contracts	23	–	–	–

The Group covers its liabilities out of operational cash flow generated, liquidity reserves in form of cash and cash equivalents including time deposits and money market deposits (December 31, 2009: CHF 1 140 million vs. December 31, 2008: CHF 356 million), non utilized, available asset-backed-security lines (December 31, 2009: CHF 52 million vs. December 31, 2008: CHF 35 million), committed open credit lines (December 31, 2009: CHF 400 million vs. December 31, 2008: CHF 750 million), uncommitted open cash pool limits (December 31, 2009: CHF 209 million vs. December 31, 2008: CHF 210 million), uncommitted net working capital facilities and through the selected issuance of capital market instruments.

In the current economic situation, scenarios are possible which could additionally affect the Group's liquidity temporarily in a negative manner.

3.2 – FAIR VALUE ESTIMATION

Effective as of 1 January 2009, the Group adopted the amendment to IFRS 7. This amendment requires the disclosure of fair value measurements in accordance with the fair value measurement hierarchy for financial instruments that are measured at fair value in the balance sheet:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2009.

CHF mn	*Level 1*	*Level 2*	*Level 3*	***Total***
Assets				
Available-for-sale financial assets (see Note 8 and 12)			42	42
Forward foreign exchange rate contracts*		1		1
Total assets		**1**	**42**	**43**
Liabilities				
Forward foreign exchange rate contracts*		–4		–4
Total liabilities		**–4**		**–4**

* The fair value of forward foreign exchange rate contracts is determined using forward exchange market rates at the balance sheet date.

3.3 – CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of invested capital as part of the return on invested capital concept. Invested capital is calculated as the sum of total equity as reported in the consolidated balance sheet plus current and non-current financial liabilities as reported in the consolidated balance sheet plus estimated liabilities from operating leases, less cash and cash equivalents not needed for operating purposes, less net assets held for sale as reported in the consolidated balance sheet.

The Group is not subject to externally imposed capital requirements, except for the covenants as disclosed in Note 15.

Invested capital was as follows on December 31, 2009 and 2008 respectively:

CHF mn	***2009***	*2008*
Total equity	1 896	1 987
Total current and non-current financial liabilities	1 685	1 565
Estimated operating lease liabilities	445	492
Less cash and cash equivalents	–1 140	–356
Cash needed for operating purposes	132	161
Invested capital	**3 018**	**3 849**

At the end of 2009, Clariant considers the invested capital to be adequate.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 – ESTIMATED IMPAIRMENT OF GOODWILL AND PROPERTY, PLANT AND EQUIPMENT

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above in Notes 1.11 and 1.12. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. In the same procedure, the recoverable value of property, plant and equipment is also assessed according to the same rules. These calculations require the use of estimates, in particular in relation to the expected growth of sales, the discount rates, the development of raw material prices and the success of restructuring measures implemented (see Notes 5 and 6).

4.2 – ENVIRONMENTAL LIABILITIES

The Group is exposed to environmental regulations in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for environmental remediation. The Group constantly monitors its sites to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The Group recognizes liabilities for environmental remediation based on the latest assessment of the environmental situation of the individual sites and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts that were previously recorded, such differences will impact the income statement in the period in which such determination was made (see Notes 17 and 30).

4.3 – INCOME AND OTHER TAXES

The Group is subject to income and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain at the time a liability must be recorded. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Some subsidiaries operate in a way that leads to tax losses, which can be used to offset taxable gains of subsequent periods. The Group constantly monitors the development of such tax loss situations. Based on the business plans for the subsidiaries concerned, the recoverability of such tax losses is determined. In the case that a tax loss is deemed to be recoverable, the capitalization of a deferred tax asset for such tax losses is then decided. The time horizon for such a calculation is in line with the mid-term planning scope of the Group.

4.4 – ESTIMATES FOR THE ACCOUNTING FOR EMPLOYEE BENEFITS

IAS 19, Employee Benefits requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the Group's retirement benefit obligation and pension plan assets (see Note 16).

5. PROPERTY, PLANT AND EQUIPMENT

CHF mn	*Land*	*Buildings*	*Machinery and equipment*	*Furniture, vehicles, computer hardware*	*Plant under construction*	***Total***	*Insured value at December 31*
At January 1, 2008							
Cost	570	2 429	4 789	494	151	8 433	
Accumulated depreciation and impairment	–178	–1 687	–3 728	–423	–16	–6 032	
Net book value	**392**	**742**	**1 061**	**71**	**135**	**2 401**	
Additions		25	83	15	147	270	
Acquisitions			3			3	
Reclassifications	1	57	127	7	–192	–	
Disposals	–3	–9	–6	–1	–1	–20	
Depreciation		–58	–164	–22		–244	
Impairment		–49	–67			–116	
Reversal of impairment			2			2	
Exchange rate differences	–46	–101	–111	–7	–21	–286	
At December 31, 2008	**344**	**607**	**928**	**63**	**68**	**2 010**	
Cost	497	2 169	4 253	436	84	7 439	
Accumulated depreciation and impairment	–153	–1 562	–3 325	–373	–16	–5 429	
Net book value	**344**	**607**	**928**	**63**	**68**	**2 010**	**8 491**
Additions		22	46	7	60	135	
Change in the scope of consolidation			1			1	
Reclassifications		25	94	7	–126	–	
Reclassified to held for sale			–2			–2	
Disposals	–7	–10	–19	–1	–2	–39	
Depreciation		–51	–143	–20		–214	
Impairment		–5	–14	–1		–20	
Exchange rate differences	3	31	16	2	4	56	
At December 31, 2009	**340**	**619**	**907**	**57**	**4**	**1 927**	
Cost	493	2 189	3 925	403	20	7 030	
Accumulated depreciation and impairment	–153	–1 570	–3 018	–346	–16	–5 103	
Net book value	**340**	**619**	**907**	**57**	**4**	**1 927**	**7 491**

The net assets of the CGU Textile were tested for impairment in 2009. For the impairment testing procedure, the planning assumptions were critically reviewed. The estimated recoverable amount of the CGU Textile on a value in use basis exceeds its carrying amount. The recoverable amount would be equal to the carrying amount if the assumed annual sales growth rate were reduced by 1.62 percent, or alternatively, if the operating margin were reduced by 1.40 percent of sales.

If the assumed annual growth rate were reduced by one percentage point, the recoverable amount would exceed the carrying amount of the CGU's net assets by CHF 58 million. If raw material costs were assumed to be one percentage point of sales higher, the recoverable amount of the net assets would exceed the carrying amount by CHF 47 million. In 2008, the net assets of Textile were already revalued for impairment in the amount of CHF 85 million. This impairment is reported in the line "Restructuring and impairment" in the income statement.

Impairments recognized in 2009 arose as a result of the restructuring measures and the entailing site closures.

As at December 31, 2009, commitments for the purchase of PPE totalled CHF 34 million (2008: CHF 46 million).

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Land, buildings, furniture and machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

CHF mn	31.12.2009	31.12.2008
Cost – capitalized finance leases	24	24
Accumulated depreciation	–11	–9
Net book value	**13**	**15**

Finance lease liability – minimum lease payments:

CHF mn	31.12.2009	31.12.2008
No later than one year	3	3
Later than one year but not later than five years	8	9
Later than five years	16	18
Total minimum lease payments	**27**	**30**
Future finance charge on finance leases	–13	–14
Present value of finance lease liabilities	**14**	**16**

The present value of finance lease liabilities is as follows:

CHF mn	31.12.2009	31.12.2008
No later than one year	2	2
Later than one year but not later than five years	5	7
Later than five years	7	7
Total minimum lease payments	**14**	**16**

The corresponding liability related to finance lease contracts is disclosed in Note 15.

6. INTANGIBLE ASSETS

CHF mn	*Goodwill*	*Other*	***Total***
At January 1, 2008			
Cost	406	146	552
Accumulated amortization and impairment	–100	–113	–213
Net book value	**306**	**33**	**339**
Additions		21	21
Acquisitions	19	17	36
Disposals		–2	–2
Reclassified	–1	1	–
Amortization		–9	–9
Impairment	–95		–95
Exchange rate differences	–6	–1	–7
At December 31, 2008	**223**	**60**	**283**
Cost	418	168	586
Accumulated amortization and impairment and impairment	–195	–108	–303
Net book value	**223**	**60**	**283**
Additions		35	35
Acquisitions		3	3
Amortization		–11	–11
Impairment	–14		–14
Exchange rate differences	–1	–1	–2
At December 31, 2009	**208**	**86**	**294**
Cost	417	198	615
Accumulated amortization and impairment	–209	–112	–321
Net book value	**208**	**86**	**294**

Amortization is allocated to the line in the income statement, which represents the function to which the intangible asset pertains.

Impairment test for goodwill. Goodwill is allocated to the Group's cash generating units (CGU). Cash generating units consist of either business segments in accordance with the Group's segment reporting or, in the case where independent cash flows can be identified, of parts of the respective business units.

INTANGIBLE ASSETS (CONTINUED)

Goodwill is allocated to the following CGUs:

CHF mn	31.12.2009	31.12.2008
Textile	–	–
Leather	141	141
Pigments & Additives	13	27
Masterbatches	47	48
Functional Chemicals	7	7
Net book value	**208**	**223**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a four-year period. No further growth is assumed beyond this four-year period. The main assumptions used for cash flow projections were EBITDA in percent of sales and sales growth. The assumptions regarding these two variables are based on Management's past experience and future expectations of business performance. The pre-tax discount rates used are based on the Group's weighted average cost of capital adjusted for specific country risks associated with the cash flow projections. The assumed pre-tax discount rate was 10.45 percent for all cash generating units (2008: 10.8 percent).

The major part of goodwill is the amount of CHF 141 million (2008: CHF 141 million) remaining from the BTP acquisition in 2000. This goodwill is allocated to the CGU Leather. The estimated recoverable amount of the CGU on a value in use basis exceeds its carrying amount including goodwill. The recoverable amount would be equal to the carrying amount if the assumed annual sales growth rate were reduced by 0.63 percent, or alternatively, if the operating margin were reduced by 0.71 percent of sales.

If the assumed annual growth rate were reduced by one percentage point the carrying amount would exceed the recoverable amount of the CGU's net assets by CHF 16 million and if it were reduced by two percentage points, the carrying amount would exceed the recoverable amount of the CGU's net assets by CHF 49 million. If the raw material costs were assumed to be one percentage point of sales higher, the carrying amount of the net assets would exceed the recoverable amount by CHF 9 million and if it were higher by two percentage points, the carrying amount of the net assets would exceed the recoverable amount by CHF 44 million. In 2006 and in 2008, the goodwill of Leather was already revalued for impairment in the amount of CHF 100 million and CHF 90 million respectively.

The CGU Pigments & Additives holds goodwill in the amount of CHF 13 million, the CGU Masterbatches holds goodwill in the amount of CHF 47 million and the CGU Functional Chemicals holds goodwill in the amount of CHF 7 million. For all these CGUs it was assumed that they would achieve sales growth in line with market growth. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented. For all these CGUs it was determined that the net present value of their expected cash flows exceeds the carrying amount of the net assets allocated on a value-in-use basis.

The goodwill impairment in 2009 in the amount of CHF 14 million concerned a Korean subsidiary pertaining to the division Pigments & Additives.

7. INVESTMENTS IN ASSOCIATES

CHF mn	2009	2008
Beginning of the year	**275**	**294**
Acquisitions	6	12
Disposals	–4	–3
Share of profit	25	37
Dividends received	–29	–34
Exchange rate differences	–	–31
End of the year	**273**	**275**

The key financial data of the Group's principal associates are as follows:

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/(Loss)	Interest held %
2008						
Infraserv GmbH & Co. Höchst KG	Germany	1 460	936	1 665	47	32
Infraserv GmbH & Co. Gendorf KG	Germany	236	140	445	9	50
Infraserv GmbH & Co. Knapsack KG	Germany	199	89	309	23	21
Others		107	39	167	11	
Total		**2 002**	**1 204**	**2 586**	**90**	
2009						
Infraserv GmbH & Co. Höchst KG	Germany	1 618	1 129	1 754	42	32
Infraserv GmbH & Co. Gendorf KG	Germany	208	118	344	7	50
Infraserv GmbH & Co. Knapsack KG	Germany	196	84	269	20	21
Others		87	19	84	6	
Total		**2 109**	**1 350**	**2 451**	**75**	

There were no unrecognized losses in the years 2009 and 2008. No accumulated unrecognized losses existed as at the balance sheet date.

The Infraserv companies were set up by the former Hoechst Group to cater to the infrastructure needs of its subsidiaries prior to 1997. The shareholdings in associates summarized under "Other" concern mainly companies specializing in selling Clariant products. Due to the specialized nature of these companies, there is no active market in which these shareholdings could be traded, hence no fair value is indicated. However, there is no evidence that the recoverable amount would be lower than the carrying amount.

8. FINANCIAL ASSETS

CHF mn	2009	2008
Beginning of the year	21	17
Exchange rate differences	–1	–1
Additions	23	5
Impairment	–24	–
End of the year	**19**	**21**

Financial assets include a number of small scale participations in companies, mostly in Germany.

Financial assets are denominated in the following currencies:

CHF mn	31.12.2009	31.12.2008
EUR	18	19
USD	–	1
CHF	1	1
Total	**19**	**21**

The carrying amounts of the above assets are entirely classified as available for sale.

In 2009 a shareholding denominated in US dollar was impaired to nil. The income statement impact amounted to CHF 1 million.

In 2009 a loan in the amount of CHF 23 million was extended to an important supplier of intermediary products in Germany. Due to the financial situation of that company the loan was fully impaired on the inception date. Due to the strict operating nature of the loan, ensuring the continuing supply of important products, this expense was recorded in Restructuring and impairment in operating income and allocated to Corporate.

The maximum exposure to credit risk of financial assets at the reporting date is their fair value.

9. TAXES

CHF mn	2009	2008
Current income taxes	–102	–113
Deferred income taxes	29	–6
Total	**–73**	**–119**

The main elements contributing to the difference between the Group's overall expected tax expense/rate and the effective tax expense/rate for continuing operations are:

	2009		2008	
	CHF mn	%	CHF mn	%
Loss/income before tax	**–121**		**91**	
Expected tax expense/rate[1]	**–13**	–10.7	**–86**	94.5
Effect of taxes on items not tax-deductible	–69	–57.1	–39	42.9
Effect of utilization and changes in recognition of tax losses and tax credits	22	18.2	22	–24.1
Effect of tax losses and tax credits of current year not recognized	–23	–19.0	–60	65.9
Effect of adjustments to current taxes of prior periods	2	1.7	3	–3.3
Effect of tax exempt income	10	8.3	38	–41.8
Effect of other items	–2	–1.7	3	–3.3
Effective tax expense/rate	**–73**	–60.3	**–119**	130.8

[1] Calculated based on the income before tax of each subsidiary (weighted average).

The deviation in the expected tax rate from 2009 to 2008 is explained by the fact that in 2009 a pre-tax loss was reported, whereas in 2008 there was a pre-tax profit. In 2009 a number of companies operating in high-tax countries reported a taxable profit. As a result a tax expense was to be expected, even though a consolidated pre-tax loss was recorded.

The movement of the net deferred tax balance is as follows:

CHF mn	*PPE and intangible assets*	*Retirement benefit obligations*	*Tax losses and tax credits*	*Other accruals and provisions*	***Total***	*Thereof offset with deferred tax assets within the same jurisdiction*	***Total***
Deferred tax assets at January 1, 2008	41	57	82	53	233	–120	113
Deferred tax liabilities at January 1, 2008	–264	–2	–	–33	–299	120	–179
Net deferred tax balance at January 1, 2008	**–223**	**55**	**82**	**20**	**–66**	**–**	**–66**
Charged / credited to income	14	5	–37	12	–6		
Effect of acquisitions	–2	–	–	1	–1		
Currency differences	22	–6	–4	–6	6		
Net deferred tax balance at December 31, 2008	**–189**	**54**	**41**	**27**	**–67**		
Deferred tax assets at December 31, 2008	32	55	41	91	219	–152	67
Deferred tax liabilities at December 31, 2008	–221	–1	–	–64	–286	152	–134
Net deferred tax balance at December 31, 2008	**–189**	**54**	**41**	**27**	**–67**	**–**	**–67**
At January 1, 2009	**–189**	**54**	**41**	**27**	**–67**	**–**	**–67**
Charged / credited to income	–	–4	–3	36	29		
Currency differences	–8	1	–2	10	1		
Net deferred tax balance at December 31, 2009	**–197**	**51**	**36**	**73**	**–37**		
Deferred tax assets at December 31, 2009	31	52	36	106	225	–150	75
Deferred tax liabilities at December 31, 2009	–228	–1	–	–33	–262	150	–112
Net deferred tax balance at December 31, 2009	**–197**	**51**	**36**	**73**	**–37**	**–**	**–37**

Of the deferred tax assets capitalized on tax losses, CHF 17 million refer to tax losses of the French subsidiaries (2008: CHF 18 million), CHF 8 million to tax losses of the Italian subsidiaries (2008: CHF 7 million) and CHF 2 million to tax losses of the German subsidiaries (2008: CHF 0). Clariant considers it probable that these tax losses can be recovered.

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 643 million at December 31, 2009 (CHF 223 million at December 31, 2008).

Deferred income tax liabilities have not been established for the withholding tax and for other taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are currently considered as permanently reinvested. These unremitted earnings totalled CHF 1 782 million at the end of 2009 (2008: CHF 1 839 million).

The tax losses on which no deferred tax assets are recognized are reviewed for recoverability at each balance sheet date. The largest part of these tax losses arose in Switzerland (with a weighted average tax rate of 14.9 percent) and in the United States (with a tax rate of 40.1 percent) and is not deemed to be recoverable before they expire.

TAXES (CONTINUED)

Tax losses on which no deferred tax assets were recognised are as follows:

CHF mn	31.12.2009	31.12.2008
Expiry by:		
2009	–	520
2010	1	6
2011	53	60
2012	5	7
2013	16	–
after 2013 (2008: after 2012)	1 192	1 333
Total	**1 267**	**1 926**

CHF mn	31.12.2009	31.12.2008
Unrecognized tax credits	**43**	**60**

The tax credits expire between 2010 and 2014.

10. INVENTORIES

CHF mn	31.12.2009	31.12.2008
Raw material, consumables, work in progress	339	527
Finished products	514	846
Total	**853**	**1 373**

CHF mn	2009	2008
Movements in write-downs of inventories		
Beginning of the year	45	47
Additions	82	48
Reversals	–61	–44
Exchange rate differences	–1	–6
End of the year	**65**	**45**

As at December 31, 2009, inventories in the amount of CHF 18 million were pledged as collateral for liabilities (2008: CHF 18 million).

The cost for raw materials and consumables recognized as an expense and included in "Costs of goods sold" amounted to CHF 3 053 million (2008: CHF 3 905 million).

In 2009 the accounting estimates for inventories valued at fair value less costs to sell were reviewed and adapted to the latest market developments. This change in accounting estimate resulted in an additional charge for write-downs in the amount of CHF 23 million.

11. TRADE RECEIVABLES

CHF mn	31.12.2009	31.12.2008
Gross accounts receivable – trade	1 146	1 153
Gross accounts receivable – associates	10	5
Less: provision for impairment of accounts receivable	–54	–48
Total trade receivables – net	**1 102**	**1 110**

The following summarizes the movement in the provision for doubtful accounts receivable:

CHF mn	2009	2008
At January 1	–48	–49
Charged to the income statement	–27	–30
Amounts used	12	15
Unused amounts reversed	10	8
Exchange rate differences	–1	8
At December 31	**–54**	**–48**

Of the provision for impairment the following amounts concerned trade receivables that were individually impaired:

CHF mn	31.12.2009	31.12.2008
Trade receivables aged up to six months	–12	–9
Trade receivables aged over six months	–37	–30
Total trade receivables – net	**–49**	**–39**

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.

The Group recognizes impairment of trade receivables in "Marketing and distribution" in the income statement.

The amount recognized in the books for trade receivables is equal to their fair value.

The maximum credit risk on trade receivables is equal to their fair value. Collaterals are only taken in rare cases (2009: CHF 6 million, 2008: CHF 6 million).

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

CHF mn	31.12.2009	31.12.2008
Currency		
EUR	474	482
USD	242	245
GBP	18	18
JPY	58	74
CHF	4	4
Other	306	287
Total trade receivables – net	**1 102**	**1 110**

As of December 31, 2009, trade receivables in the amount of CHF 116 million (2008: CHF 171 million) were past due, but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

CHF mn	31.12.2009	31.12.2008
Up to three months past due, but not impaired	109	160
Three to six months past due, but not impaired	4	9
More than six months past due, but not impaired	3	2
Total trade receivables – net	**116**	**171**

12. OTHER CURRENT ASSETS

Other current assets include the following:

CHF mn	31.12.2009	31.12.2008
Other receivables	196	229
Current financial assets	23	29
Prepaid expenses and accrued income	39	42
Total	**258**	**300**

Other receivables include staff loans, advances, advance payments, VAT and sales tax receivables.

Current financial assets include deposits with an original maturity exceeding 90 days, securities and loans to third parties and are classified as available for sale.

The amount recognized in the books for other current assets is equal to their fair value.

The maximum exposure to credit risk of other current assets at the reporting date is their fair value.

There was no impairment of current financial assets in 2009 and 2008.

Other receivables are denominated in the following currencies:

CHF mn	31.12.2009	31.12.2008
Currency		
EUR	101	122
USD	11	6
GBP	4	3
JPY	12	17
CHF	2	7
Other	66	74
Total	**196**	**229**

Current financial assets are denominated in the following currencies:

CHF mn	31.12.2009	31.12.2008
EUR	22	28
Other	1	1
Total	**23**	**29**

13. CASH AND CASH EQUIVALENTS

CHF mn	31.12.2009	31.12.2008
Cash at bank and on hand	752	286
Short-term bank deposits	388	70
Total	**1 140**	**356**

The effective interest rate on short-term bank deposits in Swiss francs was 0.27 percent (2008: 2.44 percent); these deposits have an average maturity of 57 days (2008: 58 days).

The effective interest rate on short-term bank deposits in euro was 0.78 percent (2008: 4.51 percent); these deposits have an average maturity of 33 days (2008: 13 days).

There were no material short-term bank deposits denominated in currencies other than the Swiss franc and the euro.

The maximum exposure to credit risk on cash and cash equivalents is equal to their book value.

14. CHANGES IN SHARE CAPITAL AND TREASURY SHARES

Registered shares each with a par value of CHF 4.00 (2008: CHF 4.00)	Number of shares 2009	Par value 2009	Number of shares 2008	Par value 2008
		CHF mn		CHF mn
At January 1	**230 160 000**	**921**	**230 160 000**	**978**
At December 31	**230 160 000**	**921**	**230 160 000**	**921**
Treasury shares	–4 269 387	–17	–3 826 600	–15
Outstanding capital at December 31	**225 890 613**	**904**	**226 333 400**	**906**

Treasury shares (number of shares)	2009	2008
Holdings at January 1	3 826 600	3 792 691
Shares purchased at fair market value	1 867 345	686 000
Shares sold at fair market value	–550 458	–105 009
Shares transferred to employees	–874 100	–547 082
Holdings at December 31	**4 269 387**	**3 826 600**

All shares are duly authorized and fully paid in.

Dividends are paid out as and when declared and are paid out equally on all shares, including treasury shares.

In accordance with article 5 of the Company's Articles of Incorporation, no limitations exist with regard to the registration of shares which are acquired in one's own name and on one's own account. Special rules exist for nominees.

In accordance with article 12 of the Company's Articles of Incorporation, each share has the right to one vote. A shareholder can only vote for his own shares and for represented shares, up to a maximum of 10 percent of the total share capital.

At December 31, 2009 the following shareholders held a participation of 3 percent or more of the total share capital: BlackRock Inc., New York (USA), 4.11 percent (2008: <3 percent), JPMorgan Chase & Co., New York (USA) 3.71 percent (2008: <3 percent), ABN Amro Bank N.V., Amsterdam (NL), 3.34 percent (2008: <3 percent), Dimensional Fund Advisors, Austin (USA), 3.11 percent (2008: <3 percent). Bestinver Gestión S.A., Madrid (ES) held a participation of less than 3 percent (2008: 4.97 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

15. NON-CURRENT FINANCIAL DEBTS

CHF mn	*Interest rate in %*	*Term*	***Notional amount***	***Net amount 31.12.2009***	*Net amount 31.12.2008*
Straight bond	3.125	2007–2012	250 CHF mn	250	250
Straight bond	4.375	2006–2013	600 EUR mn	874	878
Certificate of indebtedness	mixed	2008–2011	100 EUR mn	148	149
Convertible bond	3.000	2009–2014	300 CHF mn	264	
Total bonds and certificate of indebtedness				**1 536**	**1 277**
Liabilities to banks and other financial institutions[1]				**5**	**6**
Obligations under finance leases				**12**	**14**
Subtotal				**1 553**	**1 297**
Less: current portion				**–**	**–**
Total				**1 553**	**1 297**
The value of the liability part of the convertible bond recognised in the balance sheet is calculated as follows:					
Face value				300	–
Equity component				–31	–
Liability component on initial recognition on 2 July 2009				269	–
Transaction cost				–7	–
Interest expense				2	–
Interest paid				–	–
Liability component on 31 December 2009				**264**	**–**
Breakdown by maturity			2010	–	1
			2011	155	154
			2012	251	250
			2013	875	878
			2014	264	–
			thereafter	8	14
Total				**1 553**	**1 297**
Breakdown by currency			CHF	514	250
			EUR	1 036	1 041
			other	3	6
Total				**1 553**	**1 297**
Fair value comparison (including current portion)					
Straight bonds				1 135	934
Certificate of indebtedness				148	149
Convertible bond				421	–
Others				17	20
Total				**1 721**	**1 103**
Total net book value of assets pledged as collateral for financial debts				**50**	**41**
Total collaterized financial debts				16	21

[1] Average interest rate in 2009: 10.34% (Pakistan, GB and Germany) (2008: 15.0% Pakistan only).

NON-CURRENT FINANCIAL DEBTS (CONTINUED)

At the beginning of July 2009 Clariant placed a CHF 300 million senior unsecured convertible bond maturing in 2014. The conversion price was set at CHF 8.55 per share, which represents a 30 percent premium over the reference price. The coupon was set at 3.00 percent per annum, payable semi-annually in arrears.

Valuation. Non-current financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. There are no long-term financial liabilities valued at fair value through profit and loss.

The value of the liability component and the equity component of the convertible bond was determined at the issuance of the bond. The fair value of the liability component, included in the non-current borrowings, was calculated using a market rate of interest for an equivalent bond without conversion rights. The residual amount, representing the value of the equity conversion option, is included in shareholder's equity in share premium reserve.

The fair values for the bonds and convertible bond are quoted market prices as of the balance sheet date. The fair values of the other non-current financial debts, which are equal to their book value, are determined on a discounted cash flow basis.

Covenants. Clariant Ltd is borrowing and guaranteeing all obligations under one syndicated bank facility. The facility ranks pari passu with all other unsubordinated third-party debt.

The facility contains customary covenants that restrict the sale of assets, mergers, lines, sale-leaseback transactions and acquisitions, and requires the Group to maintain specified interest and debt cover ratios. These ratios are tested at the end of each financial quarter-year. The facility does not affect the ability of the Group to utilize its accounts receivable securitization program. The Group is in compliance with all covenants.

Exposure of the Group's borrowings to interest rate changes

- Bonds: the interest rates of all bonds, including the convertible bond, are fixed.
- Liabilities to banks and other financial institutions: mostly consisting of syndicated bank loans with variable interest rates (LIBOR plus applicable margin according to a defined pricing grid based on the Group's performance).
- Other financial debts: mostly current debt at variable interest rates.
- Certificate of indebtedness of EUR 100 million, issued in two parts: A part of EUR 20 million with a fixed interest rate of 6.211 percent and a second part of EUR 80 million with a floating interest rate of 2.272 percent (December 31, 2008: 6.485 percent).

Collateral. Certain Asian subsidiaries pledge trade receivables and inventories as a security for bank overdraft facilities. In case the subsidiaries default on their obligations, the borrowers have the right to take possession of these assets and receive the cash flows resulting from them.

The assets are pledged at the usual market conditions.

16. RETIREMENT BENEFIT OBLIGATIONS

Apart from the legally required social security schemes, the Group has numerous independent pension plans. The assets are principally held externally. For certain Group companies however, no independent assets exist for the pension and other non-current employee benefit obligations. In these cases the related liability is included in the balance sheet.

Defined benefit post-employment plans. Defined benefit pensions and termination plans cover the majority of the Group's employees. Future obligations and the corresponding assets of those plans considered as defined benefit plans under IAS 19 are reappraised annually and reassessed at least every three years by independent actuaries. Assets are valued at fair values. US employees transferred to Clariant with the Hoechst Specialty Chemicals business remain insured with Hoechst for their pension claims incurred prior to June 30, 1997.

Post-employment medical benefits. The Group operates a number of post-employment medical benefit schemes in the USA, Canada and France. The method of accounting for the liabilities associated with these plans is largely equal to the one used for defined benefit pension schemes. These plans are not externally funded, but are recognized as provisions in the balance sheets of the Group companies concerned.

Expenses for net benefits are recorded in the same line and function in which the personnel costs are recorded.

Changes in the present value of defined benefit obligations:

CHF mn	Pension plans (funded and unfunded)		Post-employment medical benefits (unfunded)	
	2009	2008	**2009**	2008
Beginning of the year	1 765	2 012	80	88
Change in the scope of consolidation	–	–7	–	–
Current service cost	48	59	1	2
Interest costs on obligation	86	91	5	5
Contributions to plan by employees	14	14	–	–
Benefits paid out to personnel in reporting period	–86	–76	–4	–3
Actuarial losses / gains of reporting period	86	–124	–	–5
Termination benefits	8	–	–	–
Effect of curtailments	–6	–	–	–
Effect of settlements	–	5	–3	–
Exchange rate differences	18	–209	–1	–7
End of the year	**1 933**	**1 765**	**78**	**80**

Changes in the fair value of plan assets:

CHF mn	**2009**	2008
Beginning of the year	1 294	1 743
Expected return on plan assets	68	91
Contributions to plan by employees	14	14
Contributions to plan by employer	47	52
Benefits paid out to personnel in reporting period	–64	–54
Actuarial gain / loss of the reporting period	95	–394
Effect of settlements	–3	9
Exchange rate differences	10	–167
End of the year	**1 461**	**1 294**

The Group expects to contribute CHF 48 million to its defined benefit pension plans in 2010.

As at December 31, 2009 and 2008, the pension plan assets included no registered shares issued by the Company.

RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The amounts recognized in the balance sheet:

CHF mn	Defined benefit pension plans		Post-employment medical benefits		Total	
	31.12.2009	31.12.2008	**31.12.2009**	31.12.2008	**31.12.2009**	31.12.2008
Present value of funded obligations	–1 534	–1 413			–1 534	–1 413
Fair value of plan assets	1 461	1 294			1 461	1 294
Deficit/surplus	**–73**	**–119**	**–**	**–**	**–73**	**–119**
Present value of unfunded obligations	–399	–352	–78	–80	–477	–432
Unrecognized actuarial losses (gains)	211	225	–5	–5	206	220
Unrecognized past service costs (gains)	–	–	–4	–7	–4	–7
Limitation on recognition of assets	–	–	–	–	–	–
Net liabilities in the balance sheet	**–261**	**–246**	**–87**	**–92**	**–348**	**–338**

Thereof recognized in:

CHF mn	**31.12.2009**	31.12.2008	**31.12.2009**	31.12.2008	**31.12.2009**	31.12.2008
Retirement benefit obligation	–378	–365	–87	–92	–465	–457
Prepaid pension assets	117	119			117	119
Net liabilities in the balance sheet for defined benefit plans	**–261**	**–246**	**–87**	**–92**	**–348**	**–338**

The amounts recognized in the income statement are as follows:

CHF mn	**2009**	2008	**2009**	2008	**2009**	2008
Current service cost	–48	–59	–1	–2	–49	–61
Interest cost	–86	–91	–5	–5	–91	–96
Expected return on plan assets	68	91	–	–	68	91
Net actuarial losses recognized in the current year	–10	–2	–	–	–10	–2
Past service costs recognized in the current year	–1	–	3	3	2	3
Termination benefits	–8	–	–	–	–8	–
Effect of curtailments	3	1	–	–	3	1
Effect of settlements	–	–	3	–	3	–
Limitation on recognition of assets	–	–10	–	–	–	–10
Total expenses	**–82**	**–70**	**–**	**–4**	**–82**	**–74**

CHF mn	**2009**	2008	**2009**	2008	**2009**	2008
Actual return on plan assets	163	–303	–	–	163	–303

Reconciliation to prepaid pension asset and retirement benefit obligations reported in the balance sheet:

CHF mn	31.12.2009	31.12.2008
Defined benefit obligation	–465	–457
Defined contribution obligation	–19	–21
Retirement benefit obligation	**–484**	**–478**
Prepaid pension plan asset	**117**	**119**
Net retirement benefit obligation recognized	**–367**	**–359**

The major categories of plan assets as a percentage of total plan assets:

	31.12.2009 %	31.12.2008 %
Equities	33	28
Bonds	32	42
Cash	9	5
Property	15	16
Alternative investments	11	9

Principal actuarial assumptions at the balance sheet date in percent weighted average:

		2009 %	2008 %
Discount rate		4.5	4.9
Expected return on plan assets		5.3	5.2
Expected inflation rate		1.8	2.1
Future salary increases		3.0	2.9
Long-term increase in health care costs		8.1	8.8
Current average life expectancy for a 65 year old male	in years	18	18
Current average life expectancy for a 65 year old female	in years	21	22

The weighted average expected long-term rate of return on plan assets represents the average rate of return expected to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Group considers long-term compound annualized returns of historical market data for each asset category, as well as historical actual returns on the Group's plan assets. Using this reference information, the Group develops for each pension plan a weighted average expected long-term rate of return.

RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

A one percentage point change in health care cost trend rates would have the following effects on the obligation for post-employment medical benefits:

CHF mn	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1	–1
Effect on defined benefit obligation	8	–6

Amounts for current and previous periods:

Defined benefit pension plans CHF mn	2009	2008	2007	2006
Defined benefit obligation for pension plans, funded and unfunded	–1 933	–1 765	–2 012	–2 080
Fair value of plan assets	1 461	1 294	1 743	1 698
Deficit	**–472**	**–471**	**–269**	**–382**
Experience adjustments on plan liabilities	25	27	–23	3
Experience adjustments on plan assets	95	–394	–24	48

Post-employment medical benefits CHF mn	2009	2008	2007	2006
Defined benefit obligation for post-employment medical plans	–78	–80	–88	–95
Experience adjustments on plan liabilities	–7	–2	–2	–2

Defined contribution post-employment plans. In 2009, CHF 28 million were charged to the income statements of the Group companies as contributions to defined contribution plans (2008: CHF 33 million).

In Germany, approximately 6 600 Clariant employees are insured in a defined benefit plan which is a multi-employer plan and as such is accounted for as a defined contribution plan. The reason for this accounting practice is that the plan exposes the participating Clariant companies to actuarial risks associated with the current and former employees of other companies which are members of the same pension plan. There is no consistent or reliable basis for allocating the obligation, plan assets and cost to individual companies participating in the plan.

Based on the statutory actuarial calculation of 2008, the pension fund's obligations are fully funded. Also for 2009 it is anticipated that the pension plan liabilities are covered by the respective assets.

In case the multi-employer plan faces a situation where the pension plan liabilities exceed the assets, this can be remedied either by increasing the employer's contributions to the pension plan or by reducing the benefits which are paid out to the entitled parties. In the case of a reduction of the benefits it has to be verified whether this triggers the requirement for additional funding by the employer. The decision is at the discretion of the board of the pension fund, which is constituted by representatives of the companies participating in the multi-employer plan and their employee representatives.

Clariant contributions to this pension plan amounted to CHF 15 million in 2009 (CHF 17 million in 2008).

The multi-employer plan originates in the pension plan scheme of the German companies of the former Hoechst Group, to which a part of the activities of Clariant pertained until 1997. Several of the companies which were formerly part of the Hoechst Group continue to participate in this multi-employer plan.

17. MOVEMENTS IN PROVISIONS

CHF mn	*Environmental provisions*	*Personnel provisions*	*Restructuring provisions*	*Other provisions*	***Total provisions 2009***	*Total provisions 2008*
At January 1	124	121	135	148	528	659
Additions	11	187	271	97	566	475
Effect of acquisitions					–	3
Effect of disposals					–	–1
Reclassifications	13	–	–9	–4	–	–
Amounts used	–19	–124	–182	–86	–411	–459
Unused amounts reversed		–24	–33	–16	–73	–76
Changes due to the passage of time and changes in discount rates	3	1	–	3	7	8
Exchange rate differences	2	3	2	12	19	–81
At December 31	**134**	**164**	**184**	**154**	**636**	**528**
Of which						
– Current portion	37	117	166	75	395	337
– Non-current portion	97	47	18	79	241	191
Total provision	**134**	**164**	**184**	**154**	**636**	**528**
Expected outflow of resources						
Within one year	37	117	166	75	395	337
Between one and three years	46	33	13	29	121	66
Between three and five years	32	5	5	6	48	53
Over five years	19	9	–	44	72	72
Total provision	**134**	**164**	**184**	**154**	**636**	**528**

Environmental provisions. Provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group which will result in an outflow of economic resources. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of the costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties.

The environmental provisions reported in the balance sheet concern a number of different obligations, mainly in Switzerland, the United States, Germany, the United Kingdom, Brazil and Italy.

Provisions are made for remedial work where there is an obligation to remedy environmental damage, as well as for containment work where required by environmental regulations. All provisions relate to environmental liabilities arising in connection with activities that occurred prior to the date when Clariant took control of the relevant site. At each balance sheet date, Clariant critically reviews all provisions and makes adjustments where required.

MOVEMENTS IN PROVISIONS (CONTINUED)

Personnel provisions. Personnel provisions include holiday entitlements, compensated absences such as sabbatical leave, jubilee, annual leave or other long-service benefits, profit sharing and bonuses. Such provisions are established in proportion to the services rendered by the employee concerned.

Restructuring provisions. Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources. The term restructuring refers to the activities that have as a consequence staff redundancies and the shutdown of production lines or entire sites. The restructuring provisions newly added in 2009 concern site closures and headcount reductions in various countries with the largest amounts incurred in Germany, France, Spain, UK and Switzerland.

Other provisions. Other provisions include provisions for obligations relating to tax and legal cases and other items in various countries for which no invoice has been received at the reporting date and/or for which the amount can only be reliably estimated.

All non-current provisions are discounted to reflect the time value of money where material. Discount rates reflect current market assessments of the time value of money and the risk specific to the provisions in the respective countries.

18. TRADE PAYABLES

CHF mn	31.12.2009	31.12.2008
Trade payables	521	518
Payables to associates	38	42
Accruals	303	282
Other payables	162	169
Total	**1 024**	**1 011**

The amount recognized for trade payables is equal to their fair value.

19. CURRENT FINANCIAL DEBTS

CHF mn	31.12.2009	31.12.2008
Banks and other financial institutions	132	268
Total	**132**	**268**

Breakdown by maturity:

CHF mn	31.12.2009	31.12.2008
Up to three months after the balance sheet date	101	138
Three to six months after the balance sheet date	15	91
Six to twelve months after the balance sheet date	16	39
Total	**132**	**268**

Current financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. There are no current financial liabilities valued at fair value through profit and loss.

The fair value of current financial debt other than the current portion of non-current financial debt approximates its carrying amount due to the short-term nature of these instruments.

20. SEGMENT INFORMATION

Intersegment transactions are entered into under the normal circumstances and terms and condition that would also be available to unrelated third parties.

Segment assets consist of property, plant and equipment, goodwill, inventories, receivables and investments in associates. They exclude deferred tax assets, financial assets and operating cash. Segment liabilities comprise trade payables. They exclude items such as taxation, provisions for liabilities and corporate borrowings.

SEGMENTS CHF mn	Textile, Leather & Paper Chemicals (TLP)		Pigments & Additives (PA)	
	2009	2008	**2009**	2008
Segment sales	1 652	2 025	1 502	2 004
Sales to other segments	–4	–5	–43	–56
Total sales	**1 648**	**2 020**	**1 459**	**1 948**
Operating expenses	–1 604	–1 933	–1 419	–1 757
Income from associates			18	25
Gain from the disposal of subsidiaries and associates	4	3		17
Restructuring and impairment	–28	–221	–108	–35
Operating loss/income	**20**	**–131**	**–50**	**198**
Finance income				
Finance costs				
Loss/income before taxes				
Taxes				
Net loss from continuing operations				
Discontinued operations:				
Loss from discontinued operations				
Net loss				
Operating assets	1 179	1 346	1 344	1 582
Operating liabilities	–142	–109	–106	–116
Net operating assets	**1 037**	**1 237**	**1 238**	**1 466**
Corporate assets without cash				
Corporate liabilities without financial liabilities				
Net debts [2]				
Total net assets	**1 037**	**1 237**	**1 238**	**1 466**
Thereof:				
Investments in PPE and intangibles for the period	28	51	51	85
Investments in associates	5	2	194	136
Operating loss/income	20	–131	–50	198
Add: systematic depreciation of PPE	48	65	66	75
Add: impairment loss on PPE, goodwill and financial assets	2	183	26	12
Add: amortization of other intangibles			1	2
EBITDA [1]	**70**	**117**	**43**	**287**
Add: restructuring and impairment	28	221	108	35
Less: impairment loss on PPE, goodwill and financial assets (reported under restructuring and impairment)	–2	–183	–26	–12
Less: gain from the disposal of subsidiaries and associates	–4	–3	–	–17
EBITDA before restructuring and disposals	**92**	**152**	**125**	**293**
Operating loss/income	20	–131	–50	198
Add: restructuring and impairment	28	221	108	35
Less: gain from the disposal of subsidiaries and associates	–4	–3	–	–17
Operating income before restructuring, impairment and disposals	**44**	**87**	**58**	**216**

[1] EBITDA is earning before interest, tax, depreciation and amortization.

[2]

Calculation of net debt *CHF mn*	***31.12.2009***	*31.12.2008*
Non-current financial debt	1 553	1 297
Add: current financial debt	132	268
Less: cash and cash equivalents	–1 140	–356
Less: current deposits 90 to 365 days	–	–
Net debt	**545**	**1 209**

Capital expenditure comprises additions to property, plant and equipment and intangibles.

	Master-batches (MB)		*Functional Chemicals (FUN)*		*Total segments continuing operations*		*Corporate*		***Total Group***
2009	*2008*	**2009**	*2008*	**2009**	*2008*	**2009**	*2008*	**2009**	*2008*
1 122	1 279	2 440	2 881	6 716	8 189	–	–	6 716	8 189
–	–1	–55	–56	–102	–118	–	–	–102	–118
1 122	**1 278**	**2 385**	**2 825**	**6 614**	**8 071**	**–**	**–**	**6 614**	**8 071**
–1 048	–1 191	–2 175	–2 584	–6 246	–7 465	–123	–113	–6 369	–7 578
–	2	7	8	25	35		2	25	37
–1	1	4		7	21	1	–1	8	20
–36	–14	–38	–13	–210	–283	–88	–38	–298	–321
37	**76**	**183**	**236**	**190**	**379**	**–210**	**–150**	**–20**	**229**
								10	17
								–111	–155
								–121	**91**
								–73	–119
								–194	**–28**
								–	–9
								–194	**–37**
638	656	1 225	1 370	4 386	4 954			4 386	4 954
–92	–74	–175	–163	–515	–462			–515	–462
546	**582**	**1 050**	**1 207**	**3 871**	**4 492**	**–**	**–**	**3 871**	**4 492**
						566	636	566	636
						–1 996	–1 932	–1 996	–1 932
						–545	–1 209	–545	–1 209
546	**582**	**1 050**	**1 207**	**3 871**	**4 492**	**–1 975**	**–2 505**	**1 896**	**1 987**
19	49	64	95	162	280	8	11	170	291
9	8	63	127	271	273	2	2	273	275
37	76	183	236	190	379	–210	–150	–20	229
29	32	65	66	208	238	6	6	214	244
5	2	1	2	34	199	24	10	58	209
2	1	1	1	4	4	7	5	11	9
73	**111**	**250**	**305**	**436**	**820**	**–173**	**–129**	**263**	**691**
36	14	38	13	210	283	88	38	298	321
–5	–2	–1	–2	–34	–199	–24	–10	–58	–209
1	–1	–4	–	–7	–21	–1	1	–8	–20
105	**122**	**283**	**316**	**605**	**883**	**–110**	**–100**	**495**	**783**
37	76	183	236	190	379	–210	–150	–20	229
36	14	38	13	210	283	88	38	298	321
1	–1	–4	–	–7	–21	–1	1	–8	–20
74	**89**	**217**	**249**	**393**	**641**	**–123**	**–111**	**270**	**530**

Reconciliation operating assets to total assets *CHF mn*	***31.12.2009***	*31.12.2008*
Operating assets	4 386	4 954
Corporate assets without cash	566	636
Cash	1 140	356
Total assets	**6 092**	**5 946**

The Group does not have sales in excess of 10 percent of the total sales to any single external customer.

SEGMENT INFORMATION (CONTINUED)

Geographic information CHF mn	Sales[1]		Non-current assets[2]	
	2009	2008	**2009**	2008
Continuing operations				
Europe	2 936	3 861	1 683	1 763
thereof in Germany	*885*	*1202*	*887*	*948*
thereof in Switzerland	*102*	*141*	*222*	*110*
The Americas	1 930	2 255	526	511
thereof in the US	*718*	*900*	*167*	*202*
thereof in Brazil	*527*	*583*	*226*	*176*
Asia / Africa / Australia	1 748	1 955	305	314
thereof in China	*361*	*366*	*101*	*94*
Total continuing operations	**6 614**	**8 071**	**2 514**	**2 588**

[1] Allocated by region of third-party sale's destination.

[2] Non-current assets exclude deferred tax assets and pension plan assets.

All of the Group's segments generate their revenues to the largest extent from the sale of products. These come in such a great variety that a meaningful grouping below the segment information is not possible.

21. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During the years 2009 and 2008 there were no discontinued operations. The loss from discontinued operations in the amount of CHF 9 million in the income statement of 2008 pertains to the settlement of a claim from Archimica Group Holdings B.V. for which detailed information is provided in Note 30 "Commitments and contingencies".

In 2009 CHF 3 million was paid to Archimica Group Holdings B.V. In 2008 an amount of CHF 14 million was paid in relation to the sale of the Custom Manufacturing business which was provided for completely in 2007. These amounts are disclosed in the cash flow statement in the line "Payments for/Proceeds from the disposal of discontinued operation".

Assets held for sale in the amount of CHF 2 million as at December 31, 2009 pertain to the business of Diketene and downstream intermediate products. This is a part of the Pigments & Additives division in India, which is expected to be sold in 2010.

22. DISPOSAL OF ACTIVITIES NOT QUALIFYING AS DISCONTINUED OPERATIONS

In this section, disposals of subsidiaries, associates and activities are reported that do not qualify as discontinued operations in the sense of IFRS 5. The following disposals took place in 2009 and 2008:

On September 30, 2009 Clariant Peru sold its emulsion business. On September 15, 2009 Clariant disposed of the subsidiary Clariant Masterbatches (Korea) Ltd. On September 1, 2009 the industrial park services in Griesheim in Germany were sold. On August 31, 2009 the activities of Clariant Life Science Molecules (Florida) Inc. in the United States were sold. The emulsion business in Guatemala was sold on April 16, 2009. Clariant India disposed of its flexible laminating adhesives business on March 7, 2009.

On December 28, 2008, Clariant sold the subsidiary Dick Peters B.V., Netherlands. On June 30, 2008 Clariant sold the subsidiary Technische Services Gersthofen, GmbH, Germany.

The net cash flow reported in this note also includes the proceeds from the liquiditaion of a minor subsidiary.

Net income and cash flow from the disposal of activities *CHF mn*	***2009***	*2008*
Consideration for sale received	40	30
Consideration for sale receivable	4	–
Total consideration for sale	**44**	**30**
Net assets sold including disposal-related expenses:		
PPE and Intangibles	23	5
Inventories	8	7
Trade and other receivables	10	9
Cash and cash equivalents	–	1
Payables and other liabilities	–10	–16
Net assets disposed off	**31**	**6**
Disposal related costs	5	4
Total net assets sold including disposal-related expenses	**36**	**10**
Gain on disposals	**8**	**20**
Net cash flow	**40**	**31**

23. BUSINESS COMBINATIONS

In 2009 Clariant acquired the activities of XL Performance Chemicals in the United States. Net assets acquired amounted to a fair value of about CHF 3 million and did not result in any immediate cash outflows. The purchase price depends on the performance achieved and will be paid over the next five years.

Rite Systems Inc., Ricon Colors Inc. On July 1, 2008, Clariant acquired 100 percent of the shares of the combined US companies Rite Systems Inc. and Ricon Colors Inc., leading US Masterbatch suppliers for the amount of CHF 39 million. The acquired business contributed sales of CHF 18 million and net profit of CHF 1 million to the Group for the period from July 1, 2008 to December 31, 2008. If the acquisition had occurred on January 1, 2008, Group sales would have increased additionally by CHF 27 million and net income would have increased additionally by CHF 2 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from January 1, 2008, together with the consequential tax effects. Acquisition related costs amounted to CHF 0.3 million.

Details of net assets acquired and goodwill are as follows:

Purchase consideration *CHF mn*	
Cash paid	39
Total purchase consideration	**39**
Fair value of net assets acquired	–20
Goodwill	**19**

The goodwill recognized on the acquisition is justified due to the expected synergies from the transaction and the assembled workforce.

The assets and liabilities as of July 1, 2008 arising from the acquisition are as follows:

Purchase consideration *CHF mn*	*Pre-acquisition*	*Fair value adjustments*	*Recognized carrying amounts*
Property, plant and equipment	2	1	3
Intangibles	–	17	17
Inventories	4	–	4
Trade receivables (gross)	6	–	6
Trade payables	–5	–1	–6
Provisions	–2	–1	–3
Deferred tax liabilities	–	–1	–1
Net assets acquired	**5**	**15**	**20**
Purchase consideration settled in cash			39
Cash flow on acquisition			**39**
Cash outflow for Toschem and Masterandino in 2008			3
Total cash flow on acquisition			**42**

24. FINANCE INCOME AND COSTS

Finance income CHF mn	**2009**	2008
Interest income	7	14
thereof interest on loans and receivables	*5*	*12*
thereof income from financial assets held to maturity	*2*	*1*
Other financial income	3	3
thereof gains on the valuation of fair value hedges	*0*	*0*
Total finance income	**10**	**17**

Finance costs CHF mn	**2009**	2008
Interest expense	–80	–85
thereof effect of discounting of non-current provisions	*–7*	*–8*
Other financial expenses	–14	–17
Currency result, net	–17	–53
Total finance costs	**–111**	**–155**

Other financial expenses include losses on the sale of securities, bank charges and miscellaneous finance expenses.

In 2009 and 2008, no gains or losses on fair value hedges or cash flow hedges transferred from equity, no ineffective parts of cash flow hedges or hedges of a net investment were recorded in the income statement.

Interest costs capitalized on qualifying assets for 2009 is less than CHF 1 million.

Interest income on impaired financial assets amounted to less than CHF 1 million in 2009 (2008: CHF 0).

25. EARNINGS PER SHARE (EPS)

Earnings per share are calculated by dividing the Group net income by the average number of outstanding shares (issued shares less treasury shares).

	2009	2008
Net loss attributable to shareholders of Clariant Ltd (CHF mn)		
Continuing operations	–206	–36
Discontinued operations	–	–9
Total	**–206**	**–45**
Diluted net loss attributable to shareholders of Clariant Ltd (CHF mn)		
Continuing operations	–206	–36
Discontinued operations	–	–9
Total	**–206**	**–45**
Shares		
Holdings on January 1	226 333 400	226 367 309
Effect of the issuance of share capital and transactions with treasury shares on weighted average number of shares outstanding	–428 145	165 427
Weighted average number of shares outstanding	**225 905 255**	**226 532 736**
Adjustment for granted Clariant shares	1 645 807	1 110 501
Weighted average diluted number of shares outstanding	**227 551 062**	**227 643 237**
Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	–0.91	–0.16
Discontinued operations	0.00	–0.04
Total	**–0.91**	**–0.20**
Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	–0.91	–0.16
Discontinued operations	0.00	–0.04
Total	**–0.91**	**–0.20**

The dilution effect is triggered by three different items. One is the effect of Clariant shares granted as part of the share based payment plan, which have not yet vested. To calculate this dilutive potential it is assumed that they had vested on January 1 of the respective period. The other item is the effect of options granted as part of the share based payment plan, which have not yet vested. To calculate this dilutive potential, it is assumed that all options which were in the money at the end of the respective period had been exercised on January 1 of the same period. The third dilution effect arises from the convertible bond issued in 2009. If the outstanding convertible bond is to be converted then this would lead to a reduction in interest expense and an increase in the number of shares, which may have a net dilutive effect on the earnings per share.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the years 2009 and 2008 there is no dilutive effect, because the Group incurred a net loss. Therefore, basic and diluted earnings per share are equal.

No dividends have been paid out to shareholders in 2009 and 2008.

26. FINANCIAL INSTRUMENTS

Risk management (hedging) instruments and off-balance sheet risks. Clariant uses forward foreign exchange rate and option contracts, interest rate and currency swaps, and other financial instruments to hedge the Group's risk exposure to volatility in interest rates and currencies and to manage the return on cash and cash equivalents. Risk exposures from existing assets and liabilities as well as anticipated transactions are managed centrally.

Interest rate management. It is the Group's policy to manage the cost of interest using fixed and variable rate debt and interest-related derivatives.

Foreign exchange management. To manage the exposure to the fluctuations in foreign currency exchange rates, the Group follows a strategy of hedging both balance sheet and revenue risk, partially through the use of forward contracts and currency swaps in various currencies. In order to minimize financial expenses, the Group does not hedge the entire exposure.

The following tables show the contract or underlying principal amounts and the respective fair value of financial instruments by type at year-end.

The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent the amount at risk.

Financial instruments *CHF mn*	*Contract or underlying principal amount*		*Positive fair values*		*Negative fair values*	
	31.12.2009	*31.12.2008*	***31.12.2009***	*31.12.2008*	***31.12.2009***	*31.12.2008*
Currency related instruments						
Forward foreign exchange rate contracts	203	93	1	2	–4	–1
Total financial instruments	**203**	**93**	**1**	**2**	**–4**	**–1**

The fair value of these financial instruments is recorded in "Other current assets" in the balance sheet in the case of a positive value or as an accrual in "Trade payables" in the case of a negative value.

Financial instruments by maturity *CHF mn*	***31.12.2009***	*31.12.2008*
Currency related instruments		
Forward foreign exchange rate contracts	203	93
Due dates:		
Up to one month after the balance sheet date	14	14
Two to three months after the balance sheet date	22	22
Four to twelve months after the balance sheet date	19	57
One to five years after the balance sheet date	148	–
Total financial instruments	**203**	**93**

FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments by currency *Forward foreign exchange rate contracts* *CHF mn*	**31.12.2009**	31.12.2008
USD	42	39
EUR	149	45
BRL	2	–
JPY	10	9
Total financial instruments	**203**	**93**

Financial instruments effective for hedge-accounting purposes *CHF mn*	**31.12.2009**	31.12.2008
Fair value of hedges of net investments in foreign entities:		
Contracts with positive fair values	**–**	**–**
Contracts with negative fair values	**–**	**–**
Borrowings denominated in foreign currencies	–1 023	–1 027

On April 6, 2006, Clariant issued a bond in the amount of EUR 600 million, denominated in euros (see Note 15). The bond was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange gain as at December 31, 2009 in the amount of CHF 3 million (2008: CHF 100 million gain), resulting from the translation of the bond into Swiss francs, was recognized in the cumulative translation reserves in Shareholders' equity.

On July 17, 2008 Clariant issued a Certificate of indebtedness in the amount of EUR 100 million, denominated in euros (see Note 15). The certificate of indebtedness was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange gain as at December 31, 2009 in the amount of less than CHF 1 million (2008: CHF 11 million gain), resulting from the translation of the certificate of indebtedness into Swiss francs, was recognized in the cumulative translation reserves in shareholders' equity.

Volumes of securitization of trade receivables *CHF mn*	**31.12.2009**	31.12.2008
Trade receivables denominated in US dollars	–	50
Total	**–**	**50**
Related liability in the balance sheeet denominated in US dollars	–	50
Total	**–**	**50**

Securitization. For a number of years, Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in asset-backed securities (ABS) programs. Clariant retains the credit risk of the trade receivables and the interest rate risk liability incurred. Therefore the trade receivables are not derecognized from the balance sheet until payments from the customers are obtained and a current financial liability is recorded for the amount borrowed under the security of the trade receivables. At the end of 2009 there were no securitized trade receivables.

27. EMPLOYEE PARTICIPATION PLANS

Clariant maintains an incentive plan called the Clariant Executive Bonus Plan (CEBP).

The number of shares to be granted under CEBP depends both on the performance of the Group and the performance of the Division/Function in which incentive plan members work.

The granted registered shares of Clariant Ltd become vested and are exercisable after three years. No options are granted under the CEBP.

The options granted under the former CESOP entitle the holder to acquire registered shares in Clariant Ltd. (one share per option) at a predetermined strike price. They become vested and are exercisable after three years and expire after ten years.

In April 2008, Clariant established a new stock option plan for members of management and the Board of Directors. The options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd (one share per option) at a predetermined strike price. Alternatively, the options can be sold at the Swiss Exchange. They become vested and are exercisable after two years and expire after five years. The fair value of the stock options at grant date was determined using a share price of CHF 8.58 and an excercise price of CHF 12.50. The expected volatility was determined at 46.4 percent, based on market assumptions. Assumed dividends range between CHF 0.25 and CHF 0.30 for later periods. The risk-free interest rate was determined at 3.06 percent. The trinomial model was used to determine the fair values.

The expense recorded in the income statement spreads the costs of each grant equally over the measurement period of one year and the vesting period of three years for shares and the vesting period of two years for options. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for the vested amounts. As permitted by the transitional rules of IFRS 2, grants of options and shares prior to November 7, 2002 have not been restated.

During 2009, CHF 13 million (2008: CHF 10 million) for equity-settled share-based payments and less than CHF 1 million (2008: less than CHF 1 million) for cash-settled share-based payments were charged to the income statement.

As of December 31, 2009 the total carrying value of liabilities arising from share-based payments is CHF 17 million (2008: CHF 13 million). Thereof CHF 16 million (2008: CHF 12 million) was recognized in equity for equity-settled share-based payments and CHF 1 million (2008: CHF 1 million) in non-current liabilities for cash-settled share-based payments.

Options for Board of Directors (non-executive members)[1]

Base year	*Granted*	*Exercisable from*	*Expiry date*	*Exercise price*	*Share price at grant date*	***Number 31.12.2009***	*Number 31.12.2008*
1999	1999	2002	2009	61.80	60.76	–	10 418
2000	2000	2003	2010	48.00	47.97	6 229	6 229
2008	2008	2010	2013	12.50	8.58	260 000	260 000
Total						**266 229**	**276 647**

[1] Past and current members.

EMPLOYEE PARTICIPATION PLANS (CONTINUED)

Options for senior members of Management and the Board of Management[1]

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	**Number 31.12.2009**	Number 31.12.2008
1998	1999	2002	2009	61.80	62.09	–	358 789
1999	2000	2003	2010	48.00	47.97	106 191	106 191
2000	2001	2004	2011	41.80	42.02	7 229	7 229
2001	2002	2005	2012	27.20	26.87	166 354	166 354
2002	2003	2006	2013	14.80	14.88	87 352	87 352
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	53 479	53 479
2004	2005	2008	2015	19.85	19.85	146 237	146 237
Total						**616 168**	**974 957**

Options for members of Management and the Board of Management[1]

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	**Number 31.12.2009**	Number 31.12.2008
2008	2008	2010	2013	12.50	8.58	2 257 000	2 431 000
Total						**2 257 000**	**2 431 000**

[1] Past and current members.

As per December 31, 2009, the weighted average remaining contractual life of the share options was 3.2 years (2008: 3.6 years).

Shares for Board of Directors (non-executive members)

Base year	Granted	Vesting in	Share price at grant date	**Number 31.12.2009**	Number 31.12.2008
2006	2006	2009	19.60	–	6 378
2007	2007	2010	19.15	10 443	10 443
2008	2008	2011	9.45	6 615	6 615
Total				**17 058**	**23 436**

Shares for members of Management and the Board of Management

Base year	Granted	Vesting in	Share price at grant date	**Number 31.12.2009**	Number 31.12.2008
2005	2006	2009	19.60	–	247 047
2006	2007	2010	19.15	325 844	367 039
2007	2008	2011	9.45	397 365	472 979
2008	2009	2012	7.45	805 540[1]	–
Total				**1 528 749**	**1 087 065**

[1] Not included are 100'000 shares for the compensation of forfeited contractual entitlements from former employment contracts, granted in 2009, vesting until 2011.

	Weighted average exercise price	**Options 2009**	**Shares 2009**	*Weighted average exercise price*	*Options 2008*	*Shares 2008*
Shares / options outstanding at January 1	19.64	3 682 604	1 110 501	37.61	1 296 525	1 181 689
Granted			1 133 531		2 900 000	557 289
Exercised / distributed	7.93	–132 000	–587 710	10.03	–200 000	–584 726
Cancelled / forfeited		–411 207	–10 515		–313 921	–43 751
Outstanding at December 31	**15.08**	**3 139 397**	**1 645 807**	**19.64**	**3 682 604**	**1 110 501**
Exercisable at December 31	25.52	622 397		39.03	991 604	
Fair value of shares / options outstanding in CHF		10 732 461	20 111 762		4 800 743	7 917 872

The fair value of shares granted during 2009 is CHF 12 million (2008: CHF 5 million) calculated based on market value of shares at grant date.

In 2009 no options were granted. In 2008 the fair value of options granted was CHF 7 million calculated based on the trinomial model.

Additionally, in 2009 as a result of contractual changes, 350 000 shares have been claimed with immediate effectiveness. In the prior year these shares had been allocated over a five-year period. The corresponding expense was charged to the income statement immediately. The fair value of the shares at the grant date was at CHF 10.33 per share.

28. PERSONNEL EXPENSES

CHF mn	**2009**	*2008*
Wages and salaries	–1 344	–1 326
Social welfare costs	–289	–315
Shares and options granted to directors and employees	–14	–11
Pension costs – defined contribution plans	–28	–33
Pension costs – defined benefit plans	–82	–70
Other post-employment benefits	–	–4
Total	**–1 757**	**–1 759**

29. RELATED PARTY TRANSACTIONS

Clariant maintains business relationships with related parties. One group consists of the associates, where the most important ones are described in Note 7. The most important business with these companies is the purchase of services by Clariant (e.g. energy and rental of land and buildings) in Germany. In addition to this, Clariant exchanges services and goods with other parties which are associates, i.e. in which Clariant holds a stake of between 20 and 50 percent.

The second group of related parties is key management comprising the Board of Directors and the Board of Management. The information required by Art. 663b ^{bis} of the Swiss Code of Obligations regarding the emoluments for the members of the Board of Directors and the Board of Management is disclosed in the Statutory Accounts of Clariant Ltd on pages 119 to 122 of this report. More information on the relationship with the Board of Directors is given in the chapter **Corporate governance** (non-audited).

The third group of related parties are the pension plans of major subsidiaries. Clariant provides services to its pension plans in Switzerland, the UK and the US. These services comprise mainly administrative and trustee services. The total cost of these services is CHF 1 million (2008: CHF 1 million), of which approximately half is charged back to the pension plans. The number of full-time employees corresponding to these are approximately 6 (2008: 6).

Transactions with associates *CHF mn*	***2009***	*2008*
Income from the sale of goods to related parties	23	27
Income from the rendering of services to related parties	8	3
Expenses from the purchase of goods to related parties	–46	–46
Expenses from services rendered by related parties	–235	–266

Payables and receivables with associates *CHF mn*	***31.12.2009***	*31.12.2008*
Receivables from related parties	10	5
Payables to related parties	38	42

Transactions with Key Management *CHF mn*	***2009***	*2008*
Salaries and other short-term benefits	9	7
Termination benefit	7	3
Post-employment benefits	3	2
Share-based payments [1]	6	3
Total	**25**	**15**

[1] Includes one-time grant of shares to compensate for forfeited contractual entitlements from former employment contracts.

There are no outstanding loans by the Group to any members of the Board of Directors or Board of Management.

30. COMMITMENTS AND CONTINGENCIES

Leasing commitments. The Group leases various land, buildings, machinery and equipment, furniture and vehicles under fixed-term agreements. The leases have varying terms, escalation clauses and renewal rights.

Commitments arising from fixed-term operating leases mainly concern buildings in Switzerland and Germany. The most important partners for operating leases of buildings in Germany are the Infraserv companies. There exist no particular renewal options other than annual prolongations in case there is no explicit termination of the lease contract.

CHF mn	***31.12.2009***	*31.12.2008*
2009	–	53
2010	47	36
2011	31	22
2012	20	17
2013	17	15
2014	7	–
Thereafter	19	24
Total	**141**	**167**
Guarantees in favor of third parties	44	77

Expenses for operating leases were CHF 66 million in 2009 (2008: CHF 71 million).

Purchase commitments. In the regular course of business, Clariant enters into relationships with suppliers whereby the Group commits itself to purchase certain minimum quantities of materials in order to benefit from better pricing conditions. These commitments are not in excess of current market prices and reflect normal business operations. At present, the purchase commitments on such contracts amount to about CHF 46 million (2008: CHF 75 million).

Contingencies. Clariant operates in countries where political, economic, social, legal and regulatory developments can have an impact on the operational activities. The effects of such risks on the Company's results, which arise during the normal course of business, are not foreseeable and are therefore not included in the accompanying financial statements.

In 2006, Clariant sold its Pharmaceutical Fine Chemicals business to Archimica, a company pertaining to Towerbrook Capital Partners. On October 25, 2007, Archimica Group Holdings B.V. filed a request for arbitration against Clariant at the Zurich Chamber of Commerce, raising various claims under the purchase agreement in an amount of EUR 42 million. In January 2009, the claim was settled with an impact of CHF 9 million on the income statement. This settlement was fully recognized in the books in 2008.

In the ordinary course of business, Clariant is involved in lawsuits, claims, investigations and proceedings, including product liability, intellectual property, commercial, environmental and health and safety matters. Although the outcome of any legal proceedings cannot be predicted with certainty, management is of the opinion that there are no such matters pending which would be likely to have any material adverse effect in relation to its business, financial position or results of operations.

Environmental risks. Clariant is exposed to environmental liabilities and risks relating to its past operations, principally in respect of remediation costs. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe.

The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties. The Group permanently monitors the various sites identified at risk for environmental exposure. Clariant believes that its provisions are adequate based upon currently available information, however given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred.

31. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Rates used to translate the consolidated balance sheets (closing rate):

	31.12.2009	*31.12.2008*
1 USD	1.03	1.06
1 GBP	1.66	1.53
100 JPY	1.12	1.17
1 EUR	1.49	1.49

Average sales-weighted rates used to translate the consolidated income statements and consolidated statements of cash flows:

	2009	*2008*
1 USD	1.09	1.08
1 GBP	1.70	2.02
100 JPY	1.16	1.05
1 EUR	1.51	1.59

32. IMPORTANT SUBSIDIARIES

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
Argentina	Clariant (Argentina) SA, Lomas de Zamora, Buenos Aires	100.0		■	■	
Australia	Clariant (Australia) Pty. Ltd, Glen Waverley	100.0		■	■	
Austria	Clariant (Österreich) GmbH, Vienna	100.0		■	■	
Bangladesh	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
Belgium	Clariant Masterbatches Benelux SA, Louvain-La-Neuve	100.0		■	■	
	Clariant Distribution (Belgium) S.A. NV, Louvain-La-Neuve	100.0		■		
Brazil	Clariant S.A., São Paulo	100.0		■	■	
Canada	Clariant (Canada) Inc., St Laurent, Québec	100.0		■	■	
Chile	Clariant Colorquímica (Chile) Ltda., Maipú-Santiago de Chile	100.0		■	■	
China	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Masterbatches (Guangzhou) Ltd, Guangzhou	100.0		■	■	
	Clariant Masterbatches (Shanghai) Ltd, Shanghai	100.0		■	■	
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
Colombia	Clariant (Colombia) SA, Cota-Cundinamarca	100.0		■	■	
Denmark	Clariant (Danmark) A/S, Store Heddinge	100.0		■		
Ecuador	Clariant (Ecuador) S.A., Quito	100.0		■		
Egypt	Clariant (Egypt) SAE, Cairo	96.7		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
Finland	Clariant (Finland) Oy, Vantaa	100.0		■		
	Clariant Masterbatches (Finland) Oy, Vantaa	100.0		■	■	
France	Clariant Distribution (France), Nanterre	100.0		■		
	Clariant Masterbatches (France), Nanterre	100.0		■	■	
	Clariant Masterbatches Huningue, Nanterre	100.0		■	■	■
	Clariant Production (France), Nanterre	100.0			■	■
Germany	Clariant Masterbatches (Deutschland) GmbH, Lahnstein	100.0		■	■	■
	Clariant Produkte (Deutschland) GmbH, Frankfurt-Höchst	100.0	■		■	■
	Clariant Vertrieb (Deutschland) GmbH und Co. KG, Frankfurt-Höchst	100.0		■		
Great Britain	Clariant Distribution UK Limited, Yeadon, Leeds	100.0		■		
	Clariant Production UK Ltd, Yeadon, Leeds	100.0			■	■
Greece	Clariant (Hellas) SA, Lykovrisi	100.0		■		
Guatemala	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
Honduras	Clariant Honduras S.A. de C.V., San Pedro Sula	100.0		■	■	
India	Clariant Chemicals (India) Ltd, Mumbai	63.4		■	■	■
Indonesia	PT Clariant Indonesia, Tangerang	100.0		■	■	
Ireland	Clariant Masterbatches Ireland Limited, Naas	100.0		■	■	
Italy	Clariant Distribuzione (Italia) S.p.A., Milan	100.0		■		
	Clariant Masterbatches (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Prodotti (Italia) S.p.A., Milan	100.0			■	
Japan	Clariant (Japan) K.K., Tokyo	100.0		■	■	■

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
Korea	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Pigments (Korea) Ltd, Ulsan-Si	99.8		■	■	
Luxembourg	Clariant Finance (Luxembourg) S.A., Luxemburg	100.0	■			
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		■		
Mexico	Clariant (Mexico) S.A. de C.V., Naucalpan de Juárez	100.0		■	■	
Morocco	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
Netherlands	Clariant Distributie (Nederland) BV, Maastricht	100.0		■		
New Zealand	Clariant (New Zealand) Ltd, Albany-Auckland	100.0		■	■	
Norway	Clariant Oil Services Scandinavia AS, Bergen	100.0		■		■
Pakistan	Clariant Pakistan Ltd, Karachi-Korangi	75.0		■	■	
Panama	Clariant Trading (Panamá), SA, Panamá	100.0		■		
Peru	Clariant (Perú) SA, Lima	90.8		■	■	
Philippines	Clariant (Philippines) Corp., Muntinlupa City	100.0		■		
Poland	COLEX Spolka z o.o., Zgierz	88.8		■	■	
Russia	Clariant (RUS) LLC, Moscow	100.0		■		
Saudi Arabia	Clariant Masterbatches (Saudi Arabia) Ltd, Riyadh	93.0		■	■	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	100.0		■	■	
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg	100.0		■	■	
Spain	Clariant Ibérica Comercial S.L., L'Hospitalet de Llobregat, Barcelona	100.0		■		
	Clariant Ibérica Producción S.A., L'Hospitalet de Llobregat, Barcelona	100.0			■	■
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	100.0		■	■	
Sweden	Clariant (Sverige) AB, Gothenburg	100.0		■		
	Clariant Masterbatches Norden AB, Malmö	100.0		■	■	■
Switzerland	Clariant Export AG, Muttenz	100.0		■		
	Clariant International AG, Muttenz	100.0	■			
	Clariant Produkte (Schweiz) AG, Muttenz	100.0			■	■
Taiwan	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
Thailand	Clariant (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Chonburi	100.0		■	■	
Turkey	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
Uruguay	Clariant (Uruguay) SA, Montevideo	100.0		■		
USA	Clariant Corporation, Charlotte, NC	100.0		■	■	■
Venezuela	Clariant Venezuela S.A., Maracay	100.0		■	■	
Vietnam	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0			■	

33. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Clariant decided to announce on February 16, 2010 the closure of production facilities in Muttenz, Switzerland, and Thane, India, pertaining to the divisions Textile, Leather, Paper and Pigments & Additives. The closures will lead to a reduction of 500 positions and restructuring and impairment expenses of up to CHF 150 million. This expense will be charged to the income statement from 2010 onwards in line with the requirements of IFRS.

On February 11, 2010 Clariant decided to tender notice of cancellation of its committed open credit lines in the amount of CHF 400 million. The cancellation will become effective before the end of February 2010.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Clariant Ltd, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes (pages 52 to 110), for the year ended 31 December 2009.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

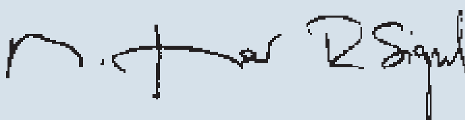
REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Dr. Matthias Jeger	Ruth Christine Sigel
Audit expert	Audit expert
Auditor in charge	

Basel, 11 February 2010

REVIEW OF TRENDS
FIVE-YEAR GROUP OVERVIEW

Five-year Group overview 2005–2009		***2009***	*2008*	*2007*	*2006*	*2005 (restated)*	*2005*
Divisional sales	*CHF mn*	**6 716**	**8 189**	**8 660**	**8 211**	**7 800**	**8 261**
Change relative to preceding year							
in Swiss francs	%	–18	–5	5	5		–6
in local currency	%	–16	1	4	3		–8
Group sales[1]	*CHF mn*	**6 614**	**8 071**	**8 533**	**8 100**	**7 728**	**8 181**
Change relative to preceding year							
in Swiss francs	%	–18	–5	5	5		–4
in local currency	%	–14	1	4	3		–6
Operating income before exceptionals	*CHF mn*	**270**	**530**	**539**	**592**	**533**	**516**
Change relative to preceding year	%	–49	–2	–9	11		–19
as a % of sales		4.1	6.6	6.3	7.3		6.3
Operating loss/income	*CHF mn*	**–20**	**229**	**278**	**385**	**448**	**368**
Change relative to preceding year	%	–109	–18	–28	–14		–31
as a % of sales		–0.3	2.8	3.3	4.8		4.5
EBITDA	*CHF mn*	**263**	**691**	**628**	**798**	**714**	**710**
Change relative to preceding year	%	–62	10	–21	12		–23
as a % of sales		4.0	8.6	7.4	9.9		8.7
Net loss/income	*CHF mn*	**–194**	**–37**	**5**	**–78**	**192**	**192**
Change relative to preceding year	%	424	–840	–106	–141		21
as a % of sales		–2.9	–0.5	0.1	–1.0		2.3
Investment in property, plant and equipment	*CHF mn*	**135**	**270**	**306**	**325**	**321**	**348**
Change relative to preceding year	%	–50	–12	–6	1		20
as a % of sales		2	3	4	4		4
Personnel costs	*CHF mn*	**1 757**	**1 759**	**1 930**	**1 817**	**1 825**	**1 952**
Change relative to preceding year	%	0	–9	6	0		–1
as a % of sales		27	22	23	22		24
Employees at year-end	*number*	17 536	20 102	20 931	21 748	22 132	23 383
Change relative to preceding year	%	–13	–4	–4	–2		–6

[1] Including trading.

Trend in Group sales by division	2009 CHF mn	2009 %	2008 CHF mn	2008 %	2007 CHF mn	2007 %	2006 (restated) CHF mn	2006 (restated) %	2006 CHF mn	2006 %	2005 (restated) CHF mn	2005 (restated) %	2005 CHF mn	2005 %
Textile, Leather & Paper Chemicals	1 648	25	2 020	25	2 332	27	2 303	29	2 303	29	2 192	28	2 192	27
Pigments & Additives	1 459	22	1 948	24	2 076	24	1 981	25	1 981	25	1 879	24	1 879	23
Functional Chemicals	2 385	36	2 825	35	2 745	33	2 562	32	2 281	28	2 083	27	2 083	25
Life Science Chemicals				–		–	–	–	281	3	430	6	883	11
Masterbatches	1 122	17	1 278	16	1 380	16	1 254	15	1 254	15	1 144	15	1 144	14
Total divisions	**6 614**	100	**8 071**	100	**8 533**	100	**8 100**	100	**8 100**	100	**7 728**	100	**8 181**	100

Trend in Group sales by region	2009 CHF mn	2009 %	2008 CHF mn	2008 %	2007 CHF mn	2007 %	2006 CHF mn	2006 %	2005 (restated) CHF mn	2005 (restated) %	2005 CHF mn	2005 %
Europe	2 936	45	3 861	48	4 155	49	3 939	49	3 797	49	4 111	50
The Americas	1 930	29	2 255	28	2 364	28	2 292	28	2 172	28	2 269	28
Asia / Australia / Africa	1 748	26	1 955	24	2 014	23	1 869	23	1 759	23	1 801	22
Total	**6 614**	100	**8 071**	100	**8 533**	100	**8 100**	100	**7 728**	100	**8 181**	100

FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ

CLARIANT LTD BALANCE SHEETS at December 31, 2009 and 2008

ASSETS	31.12.2009		31.12.2008	
	CHF	%	CHF	%
Non-current assets				
Shareholdings in Group companies	1 792 187 456		1 769 135 806	
Loans to Group companies	280 556 478		490 618 010	
Intangible assets	14 467 159		2 406 230	
Total non-current assets	**2 087 211 093**	68.1	**2 262 160 046**	88.8
Current assets				
Receivables from Group companies	400 244 141		156 973 090	
Other receivables	1 908 609		4 294 979	
Accrued income	56 555		578 273	
Marketable securities	65 749 564		39 618 242	
Cash and cash equivalents	507 818 532		83 946 527	
Total current assets	**975 777 401**	31.9	**285 411 111**	11.2
Total assets	**3 062 988 494**	100.0	**2 547 571 157**	100.0

EQUITY AND LIABILITIES	31.12.2009		31.12.2008	
	CHF	%	CHF	%
Total share capital	**920 640 000**		**920 640 000**	
Reserves				
General reserve	648 346 529		648 346 529	
Reserve for treasury shares	51 823 982		78 858 425	
Free reserves	309 226 717		593 652 505	
Total reserves	**1 009 397 228**		**1 320 857 459**	
Accumulated losses				
Loss for the financial year	–95 256 732		–311 460 232	
Total accumulated losses	**–95 256 732**		**–311 460 232**	
Total equity	**1 834 780 496**	59.9	**1 930 037 227**	75.8
Liabilities				
Non-current liabilities				
Straight bonds	250 000 000		250 000 000	
Convertible bond	300 000 000		–	
Certificate of indebtedness	160 400 000		160 400 000	
Loans from Group companies	35 040 674		47 801 427	
Total non-current liabilities	**745 440 674**	24.3	**458 201 427**	18.0
Current liabilities				
Provisions	1 233 993		3 135 359	
Liabilities to Group companies	463 930 701		148 940 491	
Other liabilities	3 613 693		726 349	
Accrued expenses	13 988 937		6 530 304	
Total current liabilities	**482 767 324**	15.8	**159 332 503**	6.2
Total liabilities	**1 228 207 998**	40.1	**617 533 930**	24.2
Total equity and liabilities	**3 062 988 494**	100.0	**2 547 571 157**	100.0

CLARIANT LTD INCOME STATEMENTS *for the years ended December 31, 2009 and 2008*

	31.12.2009 CHF	*31.12.2008* CHF
Income		
Income from financial assets	234 404 655	352 454 653
Income from cash, marketable securities and short-term deposits	1 634 197	3 645 019
Financial income	117 380 742	38 705 057
Other income	16 678 066	22 779 484
Total income	**370 097 660**	**417 584 213**
Expenses		
Financial expenses	112 125 631	129 095 366
Administrative expenses	3 383 819	2 833 848
Depreciation of financial assets	241 806 177	551 000 000
Other expenses (including taxes)	108 038 765	46 115 231
Total expenses	**465 354 392**	**729 044 445**
Loss for the financial year	**–95 256 732**	**–311 460 232**

NOTES TO THE FINANCIAL STATEMENTS OF CLARIANT LTD

1. ACCOUNTING POLICIES

Introduction. The statutory financial statements of Clariant Ltd comply with the requirements of the Swiss company law.

Exchange rate differences. Balance sheet items denominated in foreign currencies are converted at year-end exchange rates. Exchange rate differences arising from these, as well as those from business transactions, are recorded in the income statement.

Financial assets. These are valued at acquisition cost less adjustments for impairment of value.

Provisions. Provisions are made to cover existing liabilities.

2. FINANCIAL ASSETS

After a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, the investment (including non-current loans) in some of these companies were written down by CHF 242 million (prior year CHF 551 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 108 and 109 of the Financial Report of the Clariant Group.

3. CASH, MARKETABLE SECURITIES AND CURRENT FINANCIAL ASSETS

Securities include treasury shares valued at fair market value in the amount of CHF 52 million (prior year CHF 27 million) (see also Note 5).

4. SHARE CAPITAL

	31.12.2009	31.12.2008
Number of registered shares each with a par value of CHF 4.00 (2008: CHF 4.00)	230 160 000	230 160 000
In CHF	920 640 000	920 640 000

Conditional capital	31.12.2009	31.12.2008
Number of registered shares each with a par value of CHF 4.00 (2008: CHF 4.00)	40 000 000	8 000 000
In CHF	160 000 000	32 000 000

5. TREASURY SHARES (NUMBER WITH A PAR VALUE OF CHF 4.00 EACH (2008: CHF 4.00))

	2009	2008
Holdings on 1 January	3 826 600	3 526 671
Shares bought at market value	1 867 345	657 500
Shares sold at market value	–550 458	–105 009
Shares to employees	–874 100	–252 562
Holdings on 31 December	**4 269 387**	**3 826 600**

The average price of shares bought in 2009 was CHF 6.42 (2008: CHF 7.76).

The average price of shares sold in 2009 was CHF 7.82 (2008: CHF 8.83).

6. RECONCILIATION OF EQUITY

CHF	Share capital	General reserve	Reserve for treasury shares	Free reserves	Net loss/ income	Total
Balance December 31, 2008	**920 640 000**	**648 346 529**	**78 858 425**	**593 652 505**	**–311 460 232**	**1 930 037 227**
Treasury share transactions			–27 034 444	27 034 444		–
Appropriation of profit/ loss carried forward to reserves				–311 460 232	311 460 232	–
Loss for the financial year					–95 256 732	–95 256 732
Balance December 31, 2009	**920 640 000**	**648 346 529**	**51 823 981**	**309 226 717**	**–95 256 732**	**1 834 780 495**

7. BONDS AND CERTIFICATE OF INDEBTEDNESS

CHF thousand	Interest rate	Term	**Amount 31.12.2009**	Amount 31.12.2008
Straight bond	3.125	2007–2012	250 000	250 000
Convertible bond	3.000	2009–2014	300 000	–
Certificate of indebtedness	6.211	2008–2011	32 080	32 080
Certificate of indebtedness	2.272	2008–2011	128 320	128 320
Total			**710 400**	**410 400**

At the beginning of July 2009, Clariant Ltd issued a convertible bond in the amount of CHF 300 million.

8. GENERAL RESERVES

The general reserve must be at least 20 percent of the share capital of Clariant Ltd as this is the minimum amount required by the Swiss Code of Obligations.

9. RESERVE FOR TREASURY SHARES

Clariant Ltd has met the legal requirements for treasury shares required by the Swiss Code of Obligations.

10. CONTINGENT LIABILITIES

CHF mn	**Outstanding liabilities 31.12.2009**	Outstanding liabilities 31.12.2008
Outstanding liabilities as guarantees in favor of Group companies	1 070	1 016
Outstanding liabilities as guarantees in favor of third parties	–	22

11. EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT

1. BOARD OF DIRECTORS

Emoluments to members of the Board of Directors

Name	Member of the Board of Directors	Cash compensation		Social contribution	**Cash amount 2009**	Cash amount 2008
	Membership in 2009	Honorarium in CHF	Committee fee in CHF[3]	in CHF	in CHF	in CHF
Jürg Witmer	full year	500 000	20 000	27 835	547 835	459 731
Rudolf Wehrli	full year	250 000	40 000	16 081	306 081	270 842
Peter Isler	full year	100 000	20 000	8 320	128 320	122 901
Peter Chen	full year	100 000	40 000	8 880	148 880	130 500
Klaus Jenny	full year	250 000	60 000	15 814	325 814	301 893
Dominik Koechlin	full year	100 000	20 000	7 333	127 333	93 666
Carlo G. Soave	full year	100 000	20 000	7 333	127 333	93 666
Hariolf Kottmann[1]	full year	–	–	–	–	63 666
Board members resigning in 2008						281 260
Total		**1 400 000**	**220 000**	**91 596**	**1 711 596**	**1 818 125**

[1] After taking over the function as CEO, no further Board of Directors' compensations are extended.

Name	**Share-based compensation in 2009[2, 3]**	Share-based compensation in 2008[3]
Jürg Witmer	105 298	74 364
Rudolf Wehrli	58 898	43 431
Peter Isler	45 423	54 356
Peter Chen	44 729	44 638
Klaus Jenny	68 623	69 129
Dominik Koechlin	23 200	15 467
Carlo G. Soave	23 200	15 467
Hariolf Kottmann	23 200	15 467
Board members resigning in 2008		254 985
Total	**392 571**	**587 304**

[2] Options with a Value at grant in 2008 of CHF 2.32.

[3] Valuation basis IFRS2.

EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT (CONTINUED)

Shares held

Name	**Number of shares granted**	*Number of shares granted*	**Number of shares within vesting period**	*Number of shares within vesting period*	**Number of privately held shares**	*Number of privately held shares*
	31.12.2009	*31.12.2008*	**31.12.2009**	*31.12.2008*	**31.12.2009**	*31.12.2008*
Jürg Witmer	–	1 323	2 628	2 628	50 000	25 000
Rudolf Wehrli	–	1 323	2 628	2 628	6 000	5 000
Peter Isler	–	1 323	3 934	6 485	14 297	11 746
Peter Chen	–	1 323	3 934	5 210	1 476	200
Klaus Jenny	–	1 323	3 934	6 485	38 811	21 260
Dominik Koechlin	–	–	–	–	10 100	10 000
Carlo G. Soave	–	–	–	–	15 100	15 100
Hariolf Kottmann [1]	–	–	–	–	360 000	10 000
Board members resigning in 2008		3 969		–		no data
Total	**–**	**10 584**	**17 058**	**23 436**	**495 784**	**98 306**

Options held

Name	**Number of options granted**	*Number of options granted*	**Number of options within vesting period**	*Number of options within vesting period*	**Number of excercisable options**	*Number of excercisable options*
	31.12.2009	*31.12.2008*	**31.12.2009**	*31.12.2008*	**31.12.2009**	*31.12.2008*
Jürg Witmer	–	80 000	80 000	80 000	–	–
Rudolf Wehrli	–	40 000	40 000	40 000	–	–
Peter Isler	–	20 000	20 000	20 000	–	–
Peter Chen	–	20 000	20 000	20 000	–	–
Klaus Jenny	–	40 000	40 000	40 000	–	–
Dominik Koechlin	–	20 000	20 000	20 000	–	–
Carlo G. Soave	–	20 000	20 000	20 000	–	–
Hariolf Kottmann [1]	–	20 000	20 000	20 000	–	–
Board members resigning in 2008		–		–		–
Total	**–**	**260 000**	**260 000**	**260 000**	**–**	**–**

[1] After taking over the function as CEO, no further Board of Directors compensations are extended. Please refer to the Board of Management table.

2. BOARD OF MANAGEMENT

	Hariolf Kottmann	*Others*	***Total 2009***	*Total 2008*
Annual compensation				
Base salary	1 000 000	1 946 750	2 946 750	3 547 833
Cash bonus	1 300 000	2 682 375	3 982 375	1 636 517
Share-based bonus:				
Value	240 625	970 006	1 210 631	1 411 150
Options:				
Value	167 040	541 333	708 373	964 631
Other payments	1 562 792	1 181 713	2 744 505	1 796 972
Total annual compensation	**4 270 457**	**7 322 177**	**11 592 634**	**9 357 103**
Exceptional compensation				
Compensation for forfeited contractualentitlements from former employment contracts	3 434 725	472 500	3 907 225	
Payments to leaving members of the Executive Committee		7 120 110	7 120 110	3 177 500
Total compensation	**7 705 182**	**14 914 787**	**22 619 969**	**12 534 603**

During the year 2009, there were several personnel changes within the Executive Committee. The above table considers the term of office of the following members as follows:

- Peter Brandenberg from January 1 to March 31, 2009
- Okke Koo from January 1 to June 30, 2009
- Siegfried Fischer from January 1 to September 30, 2009
- Dominik von Bertrab from January 1 to September 30, 2009
- Mathias Lütgendorf since April 1, 2009
- Christian Kohlpaintner since October 1, 2009

The values above are in accordance with IFRS.

Other payments include contributions to pension funds (74 percent), social security (22 percent) and other allowances (4 percent).

There have been no payments to leaving members of the Executive Committee except those based on valid claims under the respective employment contracts. The totals of the table above together with the totals of the remuneration for the Board of Directors add up to the total reported in Note 29. Related Parties of the consolidated financial statements for the transaction with Key Management.

Shares held

Name	***Number of shares granted***	*Number of shares granted*	***Number of shares within vesting period***	*Number of shares within vesting period*	***Number of privately held shares***	*Number of privately held shares*
	for 2009	*for 2008*	***31.12.2009***	*31.12.2008*	***31.12.2009***	*31.12.2008*
Hariolf Kottmann[1]	416 500	17 500	–	–	360 000	10 000
Patrick Jany	16 800	14 765	28 709	15 934	19 218	17 228
Mathias Lütgendorf	40 750	–	–	–	58 500	–
Christian Kohlpaintner	51 370	–	–	–	51 370	–
Peter Brandenberg	–	10 872	30 204	25 914	no data	1 330
Okke Koo	–	29 899	–	21 429	no data	–
Dominik von Bertrab	–	9 423	33 473	28 961	no data	4 000
Siegfried Fischer	–	29 567	46 683	25 152	no data	16 416
Board of Management members resigning in 2008		10 067		–		–
Total	**525 420**	**122 093**	**139 069**	**117 390**	**489 088**	**48 974**

[1] Including shares immediately vested.

EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT (CONTINUED)

Options held

Name	**Number of options granted**	Number of options granted	**Number of options within vesting period**	Number of options within vesting period	**Number of excercisable options**	Number of excercisable options
	31.12.2009	31.12.2008	**31.12.2009**	31.12.2008	**31.12.2009**	31.12.2008
Hariolf Kottmann	–	108 000	108 000	108 000	–	–
Patrick Jany	–	100 000	100 000	100 000	2 815	2 815
Mathias Lütgendorf	–	–	–	–	–	–
Christian Kohlpaintner	–	–	–	–	–	–
Peter Brandenberg	–	100 000	100 000	100 000	45 029	45 029
Okke Koo	–	–	–	–	–	–
Dominik von Bertrab	–	100 000	100 000	100 000	2 072	2 072
Siegfried Fischer	–	100 000	100 000	100 000	15 554	15 554
Board of Management members resigning in 2008		290 000		40 000		–
Total	**–**	**798 000**	**508 000**	**548 000**	**65 470**	**65 470**

12. VOTING AND LEGAL REGISTRATION LIMITATIONS

In accordance with article 5 of the Articles of Incorporation, no limitations exist with regard to registration of shares which are acquired in one's own name and on one's own account. Special rules exist for nominees.

In accordance with article 12 of the Articles of Incorporation, each share has the right to one vote. A shareholder can only vote for his own shares and for represented shares up to a maximum of 10 percent of total share capital.

13. SHAREHOLDERS HOLDING THREE PERCENT OR MORE OF TOTAL CAPITAL

At December 31, 2009 the following shareholders held a participation of 3 percent or more of the total share capital: BlackRock Inc., New York (USA), 4.11 percent (2008: <3 percent), JPMorgan Chase & Co., New York (USA) 3.71 percent (2008: <3 percent), ABN Amro Bank N.V., Amsterdam (NL), 3.34 percent (2008: <3 percent), Dimensional Fund Advisors, Austin (USA), 3.11 percent (2008: <3 percent), Bestinver Gestión S.A., Madrid (ES) held a participation of less than 3 percent (2008: 4.97 percent). No other shareholder is registered as holding more than 3 percent of the total share capital.

14. RISK MANAGEMENT

The Board of Directors and Group Management annually engage in a comprehensive risk assessment procedure, which includes the risks arising on the activities of Clariant Ltd. In the process, the enterprise risks and their developments are analyzed and it is ensured that measures to the effect of their containment are implemented. Particular attention is paid to the risks of financial reporting. A more detailed description of the risk assessment can be found in the notes of the consolidated financial statements in Note 2, "Enterprise risk management" on page 69.

PROPOSED TRANSFER OF ACCUMULATED LOSSES

The Board of Directors proposes to transfer the accumulated losses in the amount of CHF –95 256 732 against free reserves.

Accumulated losses	CHF
Loss for the financial year	–95 256 732
Total accumulated losses	**–95 256 732**

Appropriation	CHF
Transfer against free reserves	95 256 732
Balance to be carried forward	**–**

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF CLARIANT LTD, MUTTENZ

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Clariant Ltd, which comprise the balance sheet, income statement and notes (pages 114 to 122), for the year ended 31 December 2009.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

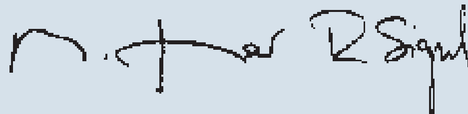
REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed transfer of accumulated losses against free reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Dr. Matthias Jeger	Ruth Christine Sigel
Audit expert	Audit expert
Auditor in charge	

Basel, 11 February 2010

FORWARD-LOOKING STATEMENTS

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed above, among the factors that could cause actual results to differ materially are the following: the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; and changes in the political, social and regulatory framework in which the company operates or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements based on current assumptions and projections made by management. Such statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results and performance of Clariant International Ltd to differ from those expressed in, implied or projected by the forward-looking information and statements. The information published in this report is provided by Clariant International Ltd and corresponds to the status as of the date of publication of this report.

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