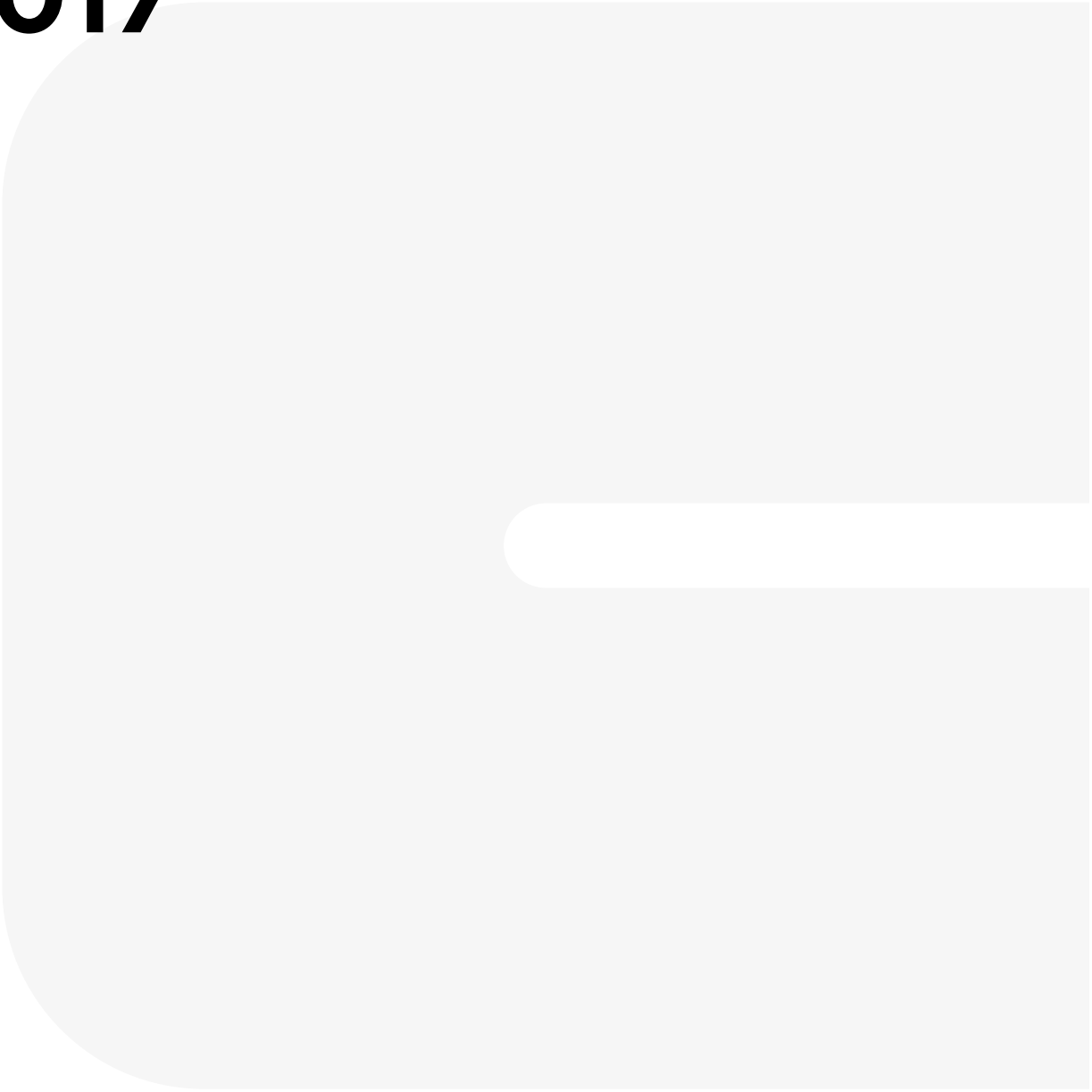


Financial Report **2017**



Index

Consolidated Financial Statements of the Clariant Group

- 1 Consolidated balance sheets
- 2 Consolidated income statements
- 3 Consolidated statements of comprehensive income
- 4 Consolidated statements of changes in equity
- 5 Consolidated statements of cash flows
- 6 Notes to the consolidated financial statements
- 67 Report of the statutory auditor

71 Review of trends

- 71 Five-year Group overview 2013-2017

72 Financial Statements of Clariant Ltd, Muttenz

- 72 Clariant Ltd balance sheets
- 73 Clariant Ltd income statements
- 74 Notes to the financial statements of Clariant Ltd
- 83 Appropriation of available earnings
- 84 Report of the statutory auditor
- 87 Forward-looking statements

CONSOLIDATED BALANCE SHEETS

at 31 December 2017 and 2016

	Notes ¹	31.12.2017 in CHF m	in %	31.12.2016 in CHF m	in %
Assets					
Non-current assets					
Property, plant and equipment	5	2 250		2 205	
Intangible assets	6	1 775		1 700	
Investments in associates and joint ventures	7	508		516	
Financial assets	8	50		71	
Prepaid pension assets	19	67		36	
Deferred tax assets	9	267		298	
Total non-current assets		4 917	59.7	4 826	57.7
Current assets					
Inventories	10	952		816	
Trade receivables	11	1 146		1 011	
Other current assets	12	388		344	
Current income tax receivables		56		41	
Short-term deposits	13	47		277	
Cash and cash equivalents	14	701		1 043	
Total current assets		3 290	40.0	3 532	42.2
Assets held for sale	24	22	0.3	7	0.1
Total assets		8 229	100.0	8 365	100.0
Equity and liabilities					
Equity					
Share capital	16	1 228		1 228	
Treasury shares (par value)	16	-10		-29	
Other reserves		83		229	
Retained earnings		1 459		1 033	
Total capital and reserves attributable to Clariant shareholders		2 760		2 461	
Non-controlling interests		179		85	
Total equity		2 939	35.7	2 546	30.4
Liabilities					
Non-current liabilities					
Financial debts	17	1 727		1 908	
Deferred tax liabilities	9	65		33	
Retirement benefit obligations	19	849		918	
Other liabilities	21	79		78	
Provision for non-current liabilities	20	166		157	
Total non-current liabilities		2 886	35.1	3 094	37.0
Current liabilities					
Trade payables and other liabilities	21	1 216		1 150	
Financial debts	22	567		957	
Current income tax liabilities		301		305	
Provision for current liabilities	20	320		313	
Total current liabilities		2 404	29.2	2 725	32.6
Total liabilities		5 290	64.3	5 819	69.6
Total equity and liabilities		8 229	100.0	8 365	100.0

¹ The notes form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS

for the years ended 31 December 2017 and 2016

	Notes ¹	2017 in CHF m	in %	2016 in CHF m	in %
Sales	23	6 377	100.0	5 847	100.0
Costs of goods sold		-4 475		-4 077	
Gross profit		1 902	29.8	1 770	30.2
Selling, general and administrative costs		-1 298		-1 138	
Research and development costs		-211		-206	
Income from associates and joint ventures	7	103		86	
Operating income		496	7.8	512	8.8
Finance income	27	35		12	
Finance costs	27	-94		-186	
Income before taxes		437	6.8	338	5.8
Taxes	9	-135		-75	
Net income		302	4.7	263	4.5
Attributable to:					
Shareholders of Clariant Ltd		277		253	
Non-controlling interests		25		10	
Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)	28	0.84		0.78	
Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)	28	0.84		0.78	

¹ The notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 December 2017 and 2016

	Notes ¹	2017 in CHF m	2016 in CHF m
Net income		302	263
Other comprehensive income:			
Remeasurements:			
Actuarial gain/loss on retirement benefit obligations	19	7	-261
Return on retirement benefit plan assets, excluding amount included in interest expense	19	111	146
Total items that will not be reclassified subsequently to the income statement, gross		118	-115
Deferred tax effect	9	-36	26
Total items that will not be reclassified subsequently to the income statement, net		82	-89
Net investment hedge	29	-55	-6
Cash flow hedge		—	5
Currency translation differences		54	-24
Share in other comprehensive income of associates and joint ventures	7	-3	-4
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities		2	3
Total items that may be reclassified subsequently to the income statement, gross		-2	-26
Deferred tax effect		0	0
Total items that may be reclassified subsequently to the income statement, net		-2	-26
Other comprehensive income for the period, net of tax		80	-115
Total comprehensive income for the period		382	148
Attributable to:			
Shareholders of Clariant Ltd		358	136
Non-controlling interests		24	12
Total comprehensive income for the period		382	148

¹ The notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY in CHF m

at 31 December 2017 and 2016

	Other reserves						Retained earnings	Total attributable to equity holders	Non-controlling interests	Total equity
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves				
Balance 31 December 2015	1 228	-34	1 448	—	-1 066	382	841	2 417	77	2 494
Net income							253	253	10	263
Cash flow hedge				5		5		5		5
Net investment hedge					-6	-6		-6		-6
Remeasurements:										
Actuarial gain/loss on retirement benefit obligations (see note 19)							-261	-261		-261
Return on retirement benefit plan assets, excluding amount included in interest expense (see note 19)							146	146		146
Deferred tax on remeasurements (see note 9)							26	26		26
Currency translation differences					-26	-26		-26	2	-24
Share in other comprehensive income of associates and joint ventures (see note 7)							-4	-4		-4
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities					3	3		3		3
Total comprehensive income for the period	—	—	—	5	-29	-24	160	136	12	148
Distributions			-129			-129		-129		-129
Dividends to non-controlling interests									-17	-17
Transaction with non-controlling interests (see note 16)							16	16	13	29
Employee share & option scheme:										
Effect of employee services							-3	-3		-3
Treasury share transactions		5					19	24		24
Balance 31 December 2016	1 228	-29	1 319	5	-1 095	229	1 033	2 461	85	2 546
Net income							277	277	25	302
Net investment hedge					-55	-55		-55		-55
Remeasurements:										
Actuarial gain/loss on retirement benefit obligations (see note 19)							7	7		7
Return on retirement benefit plan assets, excluding amount included in interest expense (see note 19)							111	111		111
Deferred tax on remeasurements (see note 9)							-36	-36		-36
Currency translation differences					55	55		55	-1	54
Share in other comprehensive income of associates and joint ventures (see note 7)							-3	-3		-3
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities					2	2		2		2
Total comprehensive income for the period	—	—	—	—	2	2	356	358	24	382
Distributions			-148			-148		-148		-148
Dividends to non-controlling interests									-29	-29
Transaction with non-controlling interests (see note 16)									99	99
Employee share & option scheme:										
Effect of employee services							-2	-2		-2
Treasury share transactions		19					72	91		91
Balance 31 December 2017	1 228	-10	1 171	5	-1 093	83	1 459	2 760	179	2 939

The notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended 31 December 2017 and 2016

	Notes ¹	2017 in CHF m	2016 in CHF m
Net cash generated from operating activities	15	428	646
Cash flows from investing activities:			
Investments in property, plant and equipment	5	-248	-297
Investments in financial assets, associates and joint ventures		-10	-8
Investments in intangible assets	6	-31	-39
Changes in current financial assets and short-term deposits		238	-116
Sale of property, plant and equipment and intangible assets		6	43
Business combinations	25	58	-421
Proceeds from equity repayment of associates and financial assets		35	69
Proceeds/payments associated to disposals of activities not qualifying as discontinued operations	24	17	-3
Net cash provided by/used in investing activities		65	-772
Cash flows from financing activities:			
Purchase of treasury shares		-	-15
Sale of treasury shares		82	22
Distribution from the reserves to the shareholders of Clariant Ltd	16	-148	-129
Dividends paid to non-controlling interests		-29	-17
Proceeds/payments associated to transactions with non-controlling interests	16	-	29
Proceeds from financial debts		78	794
Repayments of financial debts		-718	-188
Interest paid		-109	-97
Interest received		18	12
Net cash provided by/used in financing activities		-826	411
Currency translation effect on cash and cash equivalents		-9	-31
Net change in cash and cash equivalents		-342	254
Cash and cash equivalents at the beginning of the period	14	1 043	789
Cash and cash equivalents at the end of the period	14	701	1 043

¹ The notes form an integral part of the consolidated financial statements.

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.

Clariant Ltd 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 SIX Swiss Exchange.

The Board of Directors approved the consolidated financial statements for issue on 12 February 2018. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for 19 March 2018.

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 the IFRIC interpretations applicable to companies reporting under IFRS, and with the significant accounting policies set out below.

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of certain 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 certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. These estimates and judgments affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period.

Although these are based on management's best knowledge of current events and circumstances, actual outcomes may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where estimates are significant to the consolidated financial statements, are disclosed under note 4.

1.03 - Standards, interpretations and amendments effective in 2017

None of the amendments which became effective in 2017 had an impact on Clariant's consolidated financial accounts.

1.04 - Standards, interpretations and amendments not yet effective

The following standards, interpretations and amendments already issued but not yet effective will be adopted by the Group as they become effective.

IFRS 9, Financial Instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model.

The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018.

The Group's financial assets are made up to a large extent of trade receivables and other current assets which are valued at fair value. The rules for the determination of any need for impairment of trade receivables are such that they will not result in any material difference under IFRS 9 compared to the accounting rules under IAS 39. Financial assets amount to a small amount only, and management expects their valuation at fair value to only have a moderate impact for Clariant. Short-term deposits consist of money market funds of a duration between three and twelve months placed with banks of high quality. Their fluctuation of the fair value is also expected to be minimal only. The Group plans to continue to value all financial liabilities at amortized cost, thus no change in valuation is expected. The Group has designed its hedging activities with the goal of preventing any impact on the Group from the change in accounting rules from IAS 39 to IFRS 9, and the Group has no intention to engage in additional hedge accounting as a result of the introduction of the new rules regarding hedge accounting. As a consequence, it is estimated that the impact of the new standard will primarily be the valuation of certain financial assets.

IFRS 15, Revenue from contracts with customers, deals with revenue recognition and establishes principles for disclosing useful information about revenue and cash flows arising from these contracts. This standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. It is effective for accounting periods beginning on or after 1 January 2018. The Group has assessed the impact of IFRS 15 on its consolidated financial statements. In particular it was assessed if all elements of the five-step model as prescribed by IFRS 15 (pursuant to which the contract with the customer and the performance obligation are identified, the transaction price is determined and allocated and the revenue is recognized when the performance obligation is satisfied) were properly followed, if there were highly variable or uncertain stand-alone prices, if contract-related costs of substance are incurred and if the passage of control was identifiable in all cases. The conclusion was that the Company as a manufacturer and seller of industrial goods is engaged to the largest extent in transactions that will be accounted for in the same manner under IFRS 15 as under the current standards. Administrative procedures are such that contracts with customers are readily identifiable once they are agreed upon. Performance obligations for products and services can be identified by individual product numbers, which are also invoiced individually, allowing for the determination and allocation of the transaction price. As services are normally invoiced separately and commensurate with the services rendered, the requirement of a recognition over time is adhered to. As an industrial company with a large number of customers placing relatively small orders at a time, the Company does not incur substantial costs to obtain a contract. As a consequence, it is estimated that the application of the recognition and valuation rules required by IFRS 15 will not have any material impact on the financial statements of the Group.

In January 2016, the IASB published the new lease standard. IFRS 16, Leases, introduces a new lessee accounting approach by which the lessee will be required to recognize its leases on the balance sheet, by way of the recognition of a »right of use« asset and a lease liability. It also provides new guidance on sale and lease-back accounting and requires new and different disclosures. This new standard will replace the guidance of IAS 17, Leases, and is effective for accounting periods beginning on or after 1 January 2019. It is expected that the application of IFRS 16 will entail a substantial increase of Clariant's total assets and liabilities as well as an increase of its operating result and a decrease of its financial result, as operating lease obligations (and assets leased under them) will have to be recognized on the balance sheet. Instead of the leasing expenses currently fully recognized as part of the operating result under the new standard the depreciation of the leased assets will be recognized in the operating result, while interest expense arising on the lease contracts will be reported as part of finance costs. The current undiscounted operating lease commitments of CHF 171 million as of 31 December 2017 and disclosed in note 33, Commitments and contingencies, provide an indicator of the

impact of the implementation of IFRS 16 on the Group's consolidated balance sheet.

There are no other standards, interpretations or amendments already issued but not yet effective that would be expected to have a material impact for the Group.

1.05 - Scope of consolidation

- **Subsidiaries:** Subsidiaries are those entities over which the Group has control. This is the case when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date the control ceases.
- **Associates:** Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method.
- **Joint arrangements:** The Group applies IFRS 11, Joint Arrangements, to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Clariant has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

All associates and joint ventures apply the same accounting principles as 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 applying uniform presentation and valuation principles.

The results of non-controlling interests are separately disclosed in the income statement and in the balance sheet.

1.07 - Revenue recognition

Sales of goods, interest income and dividends are recognized in line with the requirements of IAS 18, Revenue. Revenue is measured at the fair value of the consideration received or receivable. Revenue from sales of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is usually upon delivery, at a fixed or determinable price, and when collectability is reasonably assured. Delivery is defined based on the terms of the sale contract. Revenue is reported net of sales taxes, returns, discounts and rebates. Rebates to customers are provided for in the same period that the related sales are recorded based on the contract terms.

Where third parties hold Clariant inventories on a consignment basis, revenue is recognized in the period that inventories are withdrawn from consignment and delivered to customers.

Clariant periodically enters into prepayment contracts with customers whereby it receives advance payments for products to be delivered in a future period. These advance payments are recorded as liabilities and presented as part of Other liabilities. Advance payment liabilities are released and revenues associated with such advance payment transactions are recognized upon delivery of and transfer of title, ownership, and risk of loss of the related products to the customer. Cash rebates and discounts granted to customers are classified as a reduction of revenue.

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 the payment is established.

1.08 - Exchange rate differences

Exchange rate differences are recognized in line with the requirements of IAS 21, The Effect of Changes in Foreign Exchange Rates. The consolidated financial statements are presented in Swiss francs, which is the functional and presentation currency of the parent company.

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 line »finance costs« 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 on other monetary financial assets measured at fair value are included in foreign exchange gains and losses in the line »Finance costs« in the income statement.

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.

All resulting exchange differences are recognized in Other comprehensive income in the line »Currency translation differences«. 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 recognized in »Other comprehensive income« in the line »Net investment hedge«. Net investments also include loans for which the settlement is neither planned nor likely to occur in the foreseeable future.

When a foreign operation is disposed of and as a consequence control, significant influence or joint control is lost, the cumulative amount in the Translation Reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

When the Group's interest in a subsidiary that includes a foreign operation changes, while retaining control in the subsidiary, a proportionate part of the cumulative amount of the translation difference that was recognized in other comprehensive income is reclassified to non-controlling interests.

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.

1.09 - Property, plant and equipment

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

· Buildings	15 to 40 years
· Machinery and equipment	10 to 16 years
· Furniture, vehicles, computer hardware	3 to 10 years
· Land is not depreciated	

Property, plant and equipment pertaining to mining activities are valued at historical costs and depreciated over their useful lives to the income statement using the units of production method.

When the entity has a present legal or constructive obligation to dismantle an item of property, plant and equipment or restore a site, its initial costs include an estimate of the costs of dismantling and removing the item and restoring the site on which it is located. A corresponding provision is recorded for the amount of the asset component.

Financing costs directly associated with the acquisition, construction or production of qualifying property, plant and equipment are capitalized as a part of the costs of these assets.

Investment property is valued at cost less depreciation. As all investment property held by Clariant consists of industrial and administrative sites which have been in use for several decades there is no

active market which would give information on possible market prices, if such property were sold to a third party. The fair values of the investment properties are therefore determined by way of external appraisals and value-in-use calculations.

1.10 - Intangible assets

Goodwill is recognized as per the requirements of IFRS 3, Business Combinations, IAS 38, Intangible Assets, and IFRS 11, Joint arrangements. Goodwill is not amortized, but tested annually for impairment as required by IAS 36, Impairment of Assets.

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. They are amortized on a straight-line basis to the income statement over their estimated useful lives (three to five years).

Costs directly associated with the production of identifiable and unique software and other intangible products controlled by the Group, that will probably generate economic benefits beyond one year, are recognized as intangible assets and depreciated over their useful life of three years. Direct costs include software development costs, personnel costs and advisory costs directly related to the software or product development and an appropriate portion of the relevant overheads. Costs associated with developing and maintaining common software programs are recognized as an expense when incurred.

Intangibles acquired in a business combination with the exception of mining rights are amortized using a straight-line method over their remaining useful lives as follows:

· Technology	3 to 15 years
· Customer relationships	6 to 20 years
· Tradenames	10 years
· Order backlog	2 years

Mining rights are depreciated over their useful lives using the units of production method.

On 1 June 2007, a European Union regulation on chemicals and their safe use came into effect. It deals with the Registration, Evaluation, Authorization and Restriction of Chemical Substances (REACH). REACH applies to all substances manufactured, placed on the market and used in the European Union, either on their own, in mixtures or in products. REACH requires the registration of certain substances, with annual volumes exceeding a consumption

of 1 000 metric tons, by 2010 and various other substances depending on their category by 2018.

As a company active in the chemical industry, Clariant has incurred costs in connection with REACH. Due to their nature, these costs are considered within the context of IAS 38, Intangible Assets, and those qualifying for capitalization are reported as intangible assets. As the initial two phases of the registration were completed in 2010 and 2013 respectively, the corresponding costs capitalized as intangible assets are amortized since 2011 for the first phase and since January 2014 for the second phase on a straight-line basis to the income statement over their estimated useful lives of twelve years.

1.11 - Impairment of assets

Impairment of assets is recognized and disclosed as per the requirements of IAS 36, Impairment of Assets.

1.12 - Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale when their carrying amount is to be recovered through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs of disposal, as per the requirements of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

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 costs, which approximates actual costs on a weighted average basis. This valuation method is also used for valuing the costs 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 in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

1.15 - Cash and cash equivalents, short-term deposits

Cash and cash equivalents comprise cash in 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 reported within financial debt in current liabilities on the balance sheet.

Short-term deposits are disclosed separately in the balance sheet if they have an original maturity between 90 and 365 days. They are valued at their nominal value, which is close to their fair market value.

1.16 - Derivative financial instruments and hedging

Derivative financial instruments and hedges are recognized in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

1.17 - Leasing

The Group classifies leases into finance and operating leases and recognizes them based on the requirements of IAS 17, Leases.

1.18 - Current income tax

The taxable profits (losses) of Group companies are calculated in accordance with the rules established by the taxation authorities of the countries in which they operate. They are the basis for the determination of income tax payments (reimbursements) for the reporting period in accordance with the prevailing local income tax rates. Current income tax is accounted for in accordance with the requirements of IAS 12, Income Taxes.

1.19 - Deferred income tax

Deferred income tax is calculated using the comprehensive liability method as per the requirements of IAS 12, Income Taxes.

No deferred income tax is calculated for the temporary differences on investments in Group companies, provided that the investor (parent company) is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

1.20 - Employee benefits

Group companies operate various post-employment schemes, including both defined benefit and defined contribution pension plans, post-employment health care plans and other benefits. Obligations for employee benefits are determined and recorded in line with the requirements of IAS 19, Employee Benefits.

Defined contribution plans: Contributions to defined contribution plans are recorded in the income statement in the period to which they relate.

Defined benefit plans: For defined benefit plans, the amount to be recognized in the provision is determined using the projected unit credit method. Independent actuaries perform the actuarial valuations for the defined benefit plans on a regular basis. For the larger plans these valuations take place annually. For the smaller ones valuations are performed at least every three years, with systematic roll-forwards in the years in between.

The retirement benefit obligations recognized in the balance sheet represent the present value of the obligations at the end of the reporting period less the fair value of the plan assets.

The prepaid pension assets recognized in the balance sheet are capitalized only to the extent of their recoverability, that is when a cash refund or a reduction in the future payments is available. The return on plan assets, except for amounts reflected in net interest income, are reported under other comprehensive income.

Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the income statement.

Some Group companies **provide post-employment 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 method 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 equity in other comprehensive income in the period in which they arise.

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 or in restructuring expenses.

Other **long-term employee benefits** are employee benefits (other than post-employment benefits and termination benefits) which do not fall wholly due within twelve months after the end of the period in which the employees render the related service. 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 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.

1.21 - Provisions

Provisions are recognized as per the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

1.22 - Research and development

Development expenses are capitalized to the extent that the recognition criteria set up by IAS 38, Intangible Assets, are met.

Considering the uncertainties inherent to the development of new key products, Clariant does not capitalize the associated development costs. Experience has proven that the structure of research and development in the industries that Clariant engages in makes it difficult to demonstrate how single intangible assets (patents) will generate probable future economic benefits.

Laboratory buildings and equipment included in property, plant and equipment are depreciated over their estimated useful lives in accordance with the Group guidelines of note 1.09.

1.23 - Segment reporting

Segment information is presented in the same manner as in the internal reporting to 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.

Clariant has seven Business Units (BU) for external reporting purposes, grouped into four Business Areas (BA) (reportable segments), in accordance with IFRS 8, Operating Segments:

- Care Chemicals (BU ICS)
- Catalysis (BU Catalysts)
- Natural Resources (BU Oil & Mining Services, BU Functional Minerals)
- Plastics & Coatings (BU Additives, BU Masterbatches, BU Pigments)

These seven Business Units were grouped into Business Areas in a manner that they reflect, in management's opinion, the similar economic characteristics of certain BU's and common traits regarding products, markets, technologies and cyclicity.

These four Business Areas have full responsibility for their operating results.

The Business Area **Care Chemicals** comprises the Industrial & Consumer Specialties (ICS) BU, food additives as well as the future Industrial Biotechnology business. It demonstrates a clear focus on highly attractive, high-margin, and low-cyclicity segments. The BA follows a lifestyle-driven megatrend and strengthens Clariant's image of being a supplier of green and sustainable products.

The Business Area **Catalysis** develops, manufactures, and sells a wide range of catalyst products for the chemical, fuel and automotive industries. This BA is the smallest within Clariant but is highly profitable with a low cyclicity in line with the investment cycle of the petrochemical industry.

The Business Area **Natural Resources** comprising BUs Oil & Mining Services and Functional Minerals, is characterized by high growth and low cyclicity as well as strong megatrend orientation. Main drivers are the rising demand for high-value added specialty chemicals used in the oil, mining, food and packaging industries, and increased consumption of oil, gas and base metals, driven by the fast-growing economies.

The Business Area **Plastics & Coatings** comprises the BUs Additives, Pigments and Masterbatches. The Business Area has a large exposure to Europe and, as such, is subject to lower growth and to economic cycles. Main drivers are the increasing use of plastics with tailor-made properties in applications such as mobile phones, cars, construction, as well as the rising consumption of plastics in line with increasing wealth.

Corporate: Income and expenses relating to Corporate include the costs of the Corporate headquarters and some of corporate coordination functions in major countries. In addition, Corporate includes certain items of income and expenses, which are not directly attributable to specific business areas, like central R&D costs.

The Group's business areas are segments offering different products. These 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 segments.

Segment sales are sales reported in the Group's income statement 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 operating expenses are expenses resulting from the operating activities of a segment 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 transactions are entered into under the normal circumstances and terms and conditions that would also be available to unrelated third parties.

The segment net assets consist of segment assets, primarily property, plant and equipment, intangible assets, inventories and receivables, less segment 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 income taxes.

The Executive Committee assesses the performance of the operating segments based on income statement parameters like third-party sales, EBITDA, operating result and cashflow. Interest income, interest expense 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).

1.24 - 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.

Written put options, where Clariant Ltd shares are the underlying, are reported as obligations to purchase Clariant Ltd shares if the number of shares is fixed and physical settlement for a fixed amount of cash is required, in case the option is exercised.

At inception, the obligation is recorded at the present value of the settlement amount of the option and the corresponding effect is recognized in shareholders' equity.

The liability is measured subsequently at amortized costs using the effective interest method. Upon settlement of such written put options, the liability is extinguished and the charge to equity is reclassified to the treasury shares.

Clariant Ltd shares, subject to such put options, are not considered to be outstanding for the purpose of basic earnings per share calculations, but are considered for the dilutive earnings per share calculations to the extent that they are dilutive.

Other reserves comprise the following items:

- **Share premium:** The share premium comprises the excess price paid over the par value of the share at the time of issuance of the share capital.

- **Cumulative translation reserves:** The translation reserves comprise 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 cumulative translation reserves comprise the foreign exchange differences arising on the translation of financial liabilities denominated in a currency other than the functional currency of the parent company Clariant Ltd, which are at the same time designated as a hedge of a net investment in a foreign entity.

1.25 - Treasury shares

Treasury shares are deducted from equity at their par value of CHF 3.70 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 - Financial debt

Financial debt is recognized based on the requirements of IAS 39, Financial Instruments: Recognition and Measurement.

1.27 - Financial assets

Financial assets are classified, recognized, measured and, if necessary, impaired based on the requirements of IAS 39, Financial Instruments: Recognition and Measurement. Purchases and sales of financial assets are recognized on settlement date, which is the date on which the Group receives or delivers the assets.

1.28 - Business combinations

The Group applies the acquisition method to account for business combinations in accordance with IFRS 3, Business Combinations, and recognizes any non-controlling interests in the acquiree at fair value (full goodwill method). Acquisition-related costs are expensed as incurred.

2. Enterprise Risk Management Identification, Assessment and Management

Under the Enterprise Risk Management Policy, based on the standard of »The Institute of Risk Management«, a tool is used to prepare risk assessments every year by Business Units, Service Units and Regions assessing threats that will impact the objectives set for Clariant overall. These objectives are a result of the overall strategy of the Group as set by the Board of Directors and implemented by the Executive Committee.

The Executive Committee is responsible for monitoring the risk management assessments for relevance and consistency.

The objectives are set in the fourth quarter of the year. These objectives together with the threats to them are subject to scrutiny by the Executive Committee during meetings with each Business Unit. Also reviewed and discussed are the proposed measures to reduce or contain threats. In that context, mitigation measures are defined and responsibilities are assigned.

All stakeholders are required to report significant changes to existing identified risks and new threats as they arise.

Risk registers are maintained using financial, operational, reputational impact and probability assessments to score and rank all identified risks. The assessments also address the measures in place to manage the risk identified with dates for completion of the measures. Effectiveness of the measures is also assessed.

When threats have been identified and quantified, they are delegated to qualified individuals who are required to deliver effective risk management. Depending on the nature of the risks identified, specific skill sets may be required for the management of those particular risks. The assessments are shared between the stakeholders on a regular basis.

A consolidated risk assessment is submitted to the Executive Committee, the Audit Committee and the Board of Directors for review. In the case of new or changed risks, the reporting procedure is accelerated. Summaries of Business Units, Service Units and Regions risk assessments are shared with key managers.

To support functional responsibility, certain functions have access to risk assessments to assist them in their roles. Examples of such functions are Environmental Safety & Health Affairs (ESHA) to identify key sites for their property risk survey program, internal audit and group procurement.

Examples of identified risks included in the Risk Register:

2.1 - Regulation & Compliance: Environmental and product risks

Clariant is subject to many rules and regulations as well as compliance standards. These include chemical industry, country, government and customer requirements as well as the European Union's (EU) Regulations on Registration, Evaluation, Authorization and Restriction of Chemical substances (REACH) or similar regulations in other countries. Corporate Product Stewardship is responsible for the management of this risk. Certain specific matters are delegated to Legal, ESHA and Logistics functions.

2.2 - Site and location

This includes manufacturing plants and equipment important for the production of Clariant products for sale to customers. Also addressed are country and culture issues that could create threats and opportunities to business objectives. The aim is to maintain high-quality production facilities. ESHA and Regional Services are responsible for the management of the associated risks.

2.3 - Economic development

The achievement of targets depends on the economic development, which is therefore continuously monitored in all markets. Should a market not develop in line with expectations, the organization will be adjusted accordingly.

2.4 - Digitalization

Long-term success may depend on the success of digital initiatives. Lack or failure of digital initiatives may result in missed opportunities and lead to long-term competitive disadvantage. Therefore Clariant invests in various digital initiatives.

3. Financial risk management

3.1 - Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk, counterparty risk, (re-)financing and funding risk, and also 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, non-derivative financial instruments and operating strategies to hedge certain risks.

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

3.1.1 - Market risk

3.1.1.1 - 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 and to some extent the currencies of emerging countries. 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 spot transactions, FX forward contracts, FX options and FX swaps according to the Group's foreign exchange risk policy. Corporate Treasury is responsible, in close coordination with the Group's operating units, for managing the net position in each foreign currency and for putting in place the appropriate hedging actions.

The Group's foreign exchange risk management policy is to selectively hedge net transaction exposures in major foreign currencies.

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

Detailed information regarding foreign exchange management is provided in note 29.

· **Foreign exchange risk sensitivity:** The estimated percentage change of the following foreign exchange rates used in this calculation is based on the historical foreign exchange rate volatility for a term of 360 days.

At 31 December 2017, if the euro had strengthened/weakened by 5% (2016: 6%) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 7 million higher/lower (2016: CHF 26 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of the euro-denominated financing, cash and cash equivalents, intragroup financing and third-party trade receivables and payables. Equity would have been CHF 42 million lower/higher (2016: CHF 42 million lower/higher), arising mainly from foreign exchange gains/losses on translation of the euro-denominated hedging instruments.

At 31 December 2017, if the US-dollar had strengthened/weakened by 7% (2016: 8%) against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 27 million higher/lower (2016: CHF 32 million higher/lower) mainly as a result of foreign exchange gains/losses on translation of US-dollar denominated cash and cash equivalents, intragroup financing and trade receivables. Equity would have been CHF 19 million lower/higher (2016: CHF 24 million lower/higher), arising mainly from foreign exchange gains/losses on the translation of the USD-denominated hedging instruments.

3.1.1.2 - 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 31 December 2017 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 2017 and 2016, 100% of the net financial debt was at fixed rates.

· **Interest rate risk management:** It is the Group's policy to manage the costs of interest using fixed and variable rate debt and interest-related derivatives. Corporate 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, fix-term deposits and the movements of the corresponding interest rates (interest rates comparison between end of 2017 and end of 2016).

At 31 December 2017, if the euro interest rates on net current financial debt issued at variable interest rates had been 9 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been below CHF 0.1 million higher/lower (2016: CHF 0.8 million higher/lower for a euro interest rate shift of 19 basis points).

3.1.2 - Other price risks

With regard to the financial statements as per 31 December 2017 and 2016, the Group was not exposed to other price risks in the sense of IFRS 7, Financial Instruments: Disclosures.

3.1.2.1 - Credit risk

· **Exposures to credit risk:** Credit risk arises from deposits of cash and cash equivalents, from entering into derivative financial instruments and from deposits with banks and financial institutions, as well as from credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions with suppliers. Customer credit risk exposure is triggered by customer default risk and country risk. As per 31 December 2017, the Group had a diversified portfolio with more than 32 000 active credit accounts (2016: more than 30 000), with no significant concentration neither due to size of customers nor due to country risk.

· **Credit risk management:** Clariant has a Group credit risk policy in place to ensure that sales are made to customers only after an appropriate credit risk rating and credit line allocation process. Procedures are standardized within a customer credit risk policy and supported by the IT system with respective credit management tools. Credit lines are partially backed by credit risk insurance.

Ageing balance of trade receivables	31.12.2017	31.12.2016
Not due yet	88%	89%
Total overdue	12%	11%
- less than 30 days	10%	8%
- more than 30 days	2%	3%

Net trade receivables per Group - internal risk category	31.12.2017	31.12.2016
A - low credit risk	27%	27%
B - low to medium credit risk	31%	32%
C - medium to above-average risk	30%	30%
D - high credit risk	12%	11%
N - customers awaiting rating	0%	0%

Financial instruments contain an element of risk that the counterparty may be unable to either issue securities or to fulfill the settlement terms of a contract. Clariant therefore – whenever possible – only cooperates with counterparties or issuers that are at least rated »BB« when it comes to entering into deposits with such counterparties. The cumulative exposure to these counterparties is constantly monitored by Corporate Treasury. There is no expectation of a material loss due to counterparty risk.

The Group maintains a large 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 »A-« (2016: A+) by the most important rating agencies, Clariant does not consider this to pose any particular counterparty risk.

At the balance sheet date 72 % (2016: 75 %) of the total cash and cash equivalents and short-term deposits were held with five (2016: five) banks, each with a position between CHF 37 million and CHF 224 million (2016: between CHF 74 million and CHF 494 million). All of these banks are rated »A-« (2016: »A«) and better.

The table below shows in percentage 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	31.12.2017
Bank A	AA	5%
Bank B	A+	22%
Bank C	A+	7%

Counterparty	Rating	31.12.2016
Bank 1	A	13%
Bank 2	A	9%
Bank 3	A+	9%

3.1.3 - Liquidity risk

· **Liquidity risk management:** Cash flow forecasting is performed in the subsidiaries of the Group and in aggregate by Corporate Treasury. Corporate 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 borrowing facilities. At all times the Group aims to meet the requirements set by the covenants of any of its borrowing facilities. Corporate 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, if an interest income higher than the one on a regular bank deposit can be achieved. At 31 December 2017, the Group held money market funds of CHF 154 million (2016: CHF 627 million), thereof CHF 47 million with an initial tenor of more than 90 days (2016: CHF 277 million).

The following table analyzes the maturity profile of the Group's financial liabilities. The amounts disclosed are the contractual undiscounted cash flows and therefore do not reconcile with the financial liabilities presented in the consolidated balance sheets.

At 31 December 2017 CHF m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	566	287	675	480
Interest on borrowings	42	36	63	2
Finance lease liabilities	3	3	9	17
Trade payables and other liabilities	1 216	1	23	55
Derivative financial instruments	1	—	-7	—

At 31 December 2016 CHF m	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	955	251	1 014	643
Interest on borrowings	74	41	81	26
Finance lease liabilities	1	1	4	17
Trade payables and other liabilities	1 150	—	16	62
Derivative financial instruments	2	—	-5	—

The Group covers its liabilities out of generated operating cash flow, liquidity reserves in form of cash and cash equivalents including money market deposits (31 December 2017: CHF 748 million vs. 31 December 2016: CHF 1 320 million), out of uncommitted open cash pool limits and bank credit lines (31 December 2017: CHF 107 million vs. 31 December 2016: CHF 132 million), as well as out of additional uncommitted net working capital facilities and through issuance of capital market instruments.

On 16 December 2016, Clariant Ltd signed an agreement for a new CHF 500 million five-year multi-currency revolving credit facility (RCF) with two one-year extension options. The RCF is structured as a club deal with ten key relationship banks with equal stakes and contains an accordion option for an increase up to CHF 600 million. The RCF is structured as a »back-stop« facility for rating purposes to maintain Clariant's liquidity headroom. It contains customary covenants such as negative pledge, cross default, ownership change and restriction on disposals, mergers and subsidiary debt. The Group is required to maintain one financial covenant (debt leverage) that is tested at the end of each financial half year. The RCF was extended one more year until 16 December 2022.

3.2 – Fair value measurement

IFRS 13, Fair Value Measurement, requires the disclosure of fair value measurements for financial instruments that are measured at fair value in the balance sheets in accordance with the fair value measurement hierarchy.

The fair value hierarchies are defined as follows:

- **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).

3.2.1 – Valuation methods

As per 31 December 2017, the open derivative financial instruments held were valued using the following valuation methods:

Forward exchange rate contracts: The valuation of forward exchange rate contracts are based on the discounted cash flow model, using observable inputs such as interest curves and spot rates.

Exchange rate options: FX options are valued based on a Black-Scholes model, using major observable inputs such as volatility and exercise prices.

The financial instruments measured at fair value through profit or loss were all classified as Level 2 (see note 29). There were no transfers between the levels in 2017 and 2016.

3.3 – Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain a capital structure suitable to optimize the cost of capital. This includes aspects of the credit rating.

In order to maintain or adjust the capital structure, the Group may adjust the amount of payouts to the shareholders, return capital to the 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 sheets plus current and non-current financial liabilities as reported in the consolidated balance sheets plus estimated liabilities from operating leases, plus estimated cash needed for operating purposes, less cash and cash equivalents and short-term deposits not needed for operating purposes.

Invested capital for the Group was as follows on 31 December 2017 and 2016 respectively:

CHF m	2017	2016
Total equity	2 939	2 546
Total current and non-current financial liabilities	2 294	2 865
Estimated operating lease liabilities	500	460
Less cash and cash equivalents and short-term deposits *	-748	-1 320
Cash needed for operating purposes	128	117
Invested capital	5 113	4 668

* Short-term deposits represent deposits over 90 days.

At the end of 2017, 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 on future events that are believed to be reasonable under the circumstances.

The Group makes estimates and takes 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, intangibles, and property, plant and equipment

The Group tests annually whether goodwill has suffered any impairment in accordance with the requirements of IAS 36, Impairment of Assets. The recoverable amounts of all cash generating units have been determined based on value-in-use calculations.

The recoverable value of intangibles and property, plant and equipment is also assessed applying value-in-use calculations. 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 previously recorded, such differences impact the income statement in the period in which such determination is made (see notes 20 and 33).

4.3 - Income tax and other taxes

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income tax 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 initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made (see note 9).

As a substantial part of Clariant's activities are based in Germany, this is where the largest tax risks arise.

Some subsidiaries generate tax losses. Often these 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 a tax loss is then decided.

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 future salary increases, long-term increase in health care costs, average life expectancy and discount rates. Substantial changes in the assumed development of any of these variables may significantly change the Group's retirement benefit obligation and pension assets (see note 19).

5. Property, plant and equipment

in CHF m	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Assets under construction	Total 2017
Cost						
As per 1 January	404	1 785	2 746	396	427	5 758
Additions	1	17	59	25	146	248
Acquired in business combinations	—	3	6	-5	5	9
Reclassified to held for sale	-8	-8	-3	—	—	-19
Disposals	-1	-7	-20	-12	—	-40
Reclassifications	3	104	215	11	-333	—
Exchange rate differences	22	51	118	14	-11	194
At 31 December	421	1 945	3 121	429	234	6 150
Accumulated depreciation and impairment						
As per 1 January	-105	-1 180	-1 988	-280	—	-3 553
Reclassified to held for sale	—	2	2	—	—	4
Disposals	—	6	19	9	—	34
Depreciation	—	-51	-145	-35	—	-231
Impairment (see note 26)	—	-1	-2	-2	—	-5
Exchange rate differences	-11	-32	-93	-13	—	-149
At 31 December	-116	-1 256	-2 207	-321	—	-3 900
Net book value	305	689	914	108	234	2 250

Impairments recognized in 2017 and 2016 arose as a result of re-structuring measures entailing site closures.

In 2016 Clariant sold office buildings in Germany and in China realizing a gain of CHF 23 million.

As at 31 December 2017, commitments for the purchase of property, plant and equipment concerned various projects mainly in Germany, the United States, and in China and totalled CHF 50 million (2016: CHF 49 million).

As per 31 December 2017, property, plant and equipment acquired by way of finance lease, with costs of CHF 30 million (2016: CHF 18 million) and a net book value of CHF 17 million (2016: CHF 9 million) were recorded.

in CHF m	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Assets under construction	Total 2016
Cost						
As per 1 January	408	1 722	2 673	340	427	5 570
Additions	—	11	56	15	215	297
Acquired in business combinations	4	17	20	28	1	70
Reclassified to held for sale	-6	—	—	—	—	-6
Disposals	-13	-17	-27	-22	—	-79
Reclassifications	11	54	114	42	-221	—
Exchange rate differences	—	-2	-90	-7	5	-94
At 31 December	404	1 785	2 746	396	427	5 758
Accumulated depreciation and impairment						
As per 1 January	-108	-1 142	-1 975	-262	—	-3 487
Reclassified to held for sale	1	—	—	—	—	1
Disposals	1	7	26	21	—	55
Depreciation	—	-47	-133	-30	—	-210
Impairment (see note 26)	—	-3	-6	—	—	-9
Reclassifications	—	1	16	-17	—	—
Exchange rate differences	1	4	84	8	—	97
At 31 December	-105	-1 180	-1 988	-280	—	-3 553
Net book value	299	605	758	116	427	2 205

Investment properties (Clariant as a lessor in operating leases)

As a result of the continuous efforts to increase efficiency and to optimize the structure of its facilities Clariant sometimes vacates certain production or administrative sites. In order to minimize expenses Clariant seeks to find tenants for these facilities.

As a consequence such facilities, which generate income exclusively from rental contracts, are considered as investment property in line with the requirements of IAS40, Investment Property. All investment property is valued at cost less depreciation.

Investment property in Clariant is almost entirely located in Switzerland and Germany. The gross book value of investment property amounted to CHF 721 million on 31 December 2017 (CHF 651 million on 31 December 2016).

Accumulated depreciation on investment property amounted to CHF 541 million on 31 December 2017 (CHF 484 million on 31 December 2016).

The net book value amounted to CHF 180 million on 31 December 2017 (CHF 167 million on 31 December 2016).

Depreciation amounted to CHF 2 million in 2017 (CHF 2 million in 2016).

Income from investment properties amounted to CHF 16 million in 2017 (CHF 15 million in 2016) and is recorded in SG&A in the segment Corporate.

Expected minimum lease income varies between CHF 7 million and CHF 13 million (2016: CHF 8 million and CHF 13 million) per annum for the next five years and amounts to CHF 105 million for later periods (2016: CHF 107 million).

Since all investment property consists of industrial and administrative sites which have been in use for several decades there is no active market which would give information on possible market prices, if such sites were to be sold to a third party. The fair values of the investment properties were therefore determined by way of external appraisals and value-in-use calculations. As of 31 December 2017 the estimated fair value of investment property amounted to CHF 223 million (CHF 189 million on 31 December 2016).

6. Intangible assets

in CHF m	Goodwill	Technology	Customer relationships	Trade names	Other	Total 2017
Cost						
As per 1 January	1 437	223	389	110	379	2 538
Additions	—	4	—	—	27	31
Acquired in business combinations	59	16	17	—	2	94
Disposals	—	—	—	—	-42	-42
Reclassifications	—	6	—	—	-6	—
Exchange rate differences	16	7	-2	1	19	41
At 31 December	1 512	256	404	111	379	2 662
Accumulated amortization and impairment						
As per 1 January	-227	-136	-184	-78	-213	-838
Disposals	—	—	—	—	42	42
Amortization	—	-19	-18	-9	-24	-70
Impairment (see note 26)	-5	-4	-2	—	—	-11
Exchange rate differences	—	-2	—	1	-9	-10
At 31 December	-232	-161	-204	-86	-204	-887
Net book value	1 280	95	200	25	175	1 775

in CHF m	Goodwill	Technology	Customer relationships	Trade names	Other	Total 2016
Cost						
As per 1 January	1 263	192	270	108	330	2 163
Additions	—	—	—	—	39	39
Acquired in business combinations	176	31	114	2	22	345
Disposals	-7	—	-2	—	-10	-19
Exchange rate differences	5	—	7	—	-2	10
At 31 December	1 437	223	389	110	379	2 538
Accumulated amortization and impairment						
As per 1 January	-244	-121	-174	-69	-205	-813
Disposals	7	—	2	—	10	19
Amortization	—	-15	-10	-9	-21	-55
Exchange rate differences	10	—	-2	—	3	11
At 31 December	-227	-136	-184	-78	-213	-838
Net book value	1 210	87	205	32	166	1 700

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

In 2017 impairment losses were recognized which concerned site closures in China. In 2016 no impairments were recognized.

As per end of 2017, other intangible assets include costs in the amount of CHF 57 million (2016: CHF 49 million) capitalized in connection with the REACH regulation and CHF 59 million (2016: CHF 46 million) of capitalized internally generated intangibles.

Impairment test for goodwill. Goodwill is allocated to the Group's cash generating units (CGU). Cash generating units consist of Business Units which are for external reporting purposes reported under the corresponding business areas (reportable segments, see note 1.23).

Goodwill is allocated to the following CGUs:

in CHF m	31.12.2017	31.12.2016
Industrial & Consumer Specialties	69	70
Masterbatches	178	175
Pigments	13	18
Functional Minerals	150	143
Catalysts	704	628
Oil & Mining Services	166	176
Total net book value	1 280	1 210

The recoverable amount for all CGUs is determined based on their value-in-use. The value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period. Beyond this five-year period growth in accordance with market growth (2.25%) is assumed. The main assumptions used for cash flow projections are 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. The assumed pre-tax discount rate was 10.78% for all cash generating units (2016: 10.27%). As all CGUs operate in similar geographic areas, have the same source of funds and a similar risk pattern a uniform discount rate is applied to all of them.

For all CGUs it was assumed that they achieve sales growth in line with or higher than market growth, based on the specific strategic plans for the respective CGUs. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the continuous improvement measures implemented. The conclusion was that the net present value of the expected cash flows exceeds the carrying amount of the net assets allocated on a value-in-use basis of all CGUs.

The estimated recoverable amount of the CGU Catalysts exceeds its carrying amount including goodwill by CHF 324 million (2016: CHF 247 million). The recoverable amount would be equal to the carrying amount if the assumed average annual sales growth rate during the planning period were reduced by 1.9% (2016: 2.0%), or alternatively, if the operating margin was reduced by 3.0% of sales (2016: 2.6%).

7. Investments in associates and joint ventures

in CHF m	2017	2016
As per 1 January	516	586
Change in the scope of consolidation	-104	-6
Additions	10	5
Impairment (see note 26)	—	1
Disposals	-6	—
Share in profit	81	85
Dilution gain from capital increase	22	—
Equity repayment	—	-64
Share in other comprehensive income of associates and joint ventures	-3	-4
Dividends received	-45	-85
Exchange rate differences	37	-2
At 31 December	508	516
Thereof joint ventures	112	185

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

INVESTMENTS IN ASSOCIATES

in CHF m	Stahl Lux 2 SA		Infraserv GmbH & Co. Höchst KG		Infraserv GmbH & Co. Gendorf KG		Infraserv GmbH & Co. Knapsack KG		Others	
	Luxembourg		Germany		Germany		Germany			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Summarized financial information										
Interest held %	20%	24%	33%	33%	50%	50%	21%	21%	—	—
Revenue	744	661	1 078	1 030	253	240	218	202	351	329
Total comprehensive income	107	78	62	72	21	13	15	16	16	26
Net income	107	78	71	78	20	18	15	16	16	26
Other comprehensive income	—	—	-9	-6	1	-5	—	—	—	—
Current assets	434	367	311	295	80	67	69	58	273	253
Non-current assets	527	262	660	623	188	159	120	108	122	145
Current liabilities	-173	-132	-250	-221	-86	-63	-59	-45	-205	-164
Non-current liabilities	-607	-607	-419	-417	-65	-64	-34	-29	-60	-97
Net assets	181	-110	302	280	117	99	96	92	130	137
Reconciliation of book value										
Book value beginning of period	100	180	98	104	50	51	18	17	65	57
Additions	—	—	—	—	—	—	—	—	10	5
Disposals	—	—	—	—	—	—	—	—	-6	—
Change in the scope of consolidation	—	—	—	—	—	—	—	—	-5	-6
Impairment	—	—	—	—	—	—	—	—	—	1
Share in profit for the period	26	18	23	26	10	9	3	4	1	16
Dilution gain from capital increase	22	—	—	—	—	—	—	—	—	—
Share in other comprehensive income	—	—	-3	-2	—	-2	—	—	—	—
Equity repayment	—	-64	—	—	—	—	—	—	—	—
Dividends received	—	-33	-28	-30	-6	-6	-3	-3	-8	-8
Foreign exchange rate differences	11	-1	8	—	5	-2	2	—	3	—
Book value end of the period	159	100	98	98	59	50	20	18	60	65
Group's share in net assets	36	-26	100	93	58	50	20	19	60	65
Fair value adjustment/goodwill	124	124	—	—	—	—	—	—	—	—
Taxes, minorities and other adjustments	-1	2	-2	5	1	—	—	-1	—	—
Book value at the end of the period	159	100	98	98	59	50	20	18	60	65

In 2014 Clariant sold its Leather Service Business to the Netherlands-based Stahl group for a cash consideration and a 24 % stake in the acquiring group. Stahl is a producer of high-quality chemicals, dyes, and coatings for leather and other applications and has about 1 700 employees.

In 2017 Stahl engaged in a share capital increase, in which Clariant did not participate. As a result Clariant's stake decreased from 24% to 20% and a dilution gain amounting to CHF 22 million was recognized in the income statement as a part of »Income from associates and joint ventures«.

The Infraserv companies were set up by the former Hoechst group to cater to the infrastructure needs of its subsidiaries in Germany prior to 1997. The shareholdings in associates summarized under »Others« concern mainly companies specializing in selling Clariant products.

On 31 December 2017, accumulated unrecognized losses amounted to CHF 6 million (2016: CHF 12 million).

The key financial data of the Group's principal joint ventures is as follows:

in CHF m	Scientific Design Company Inc.		Süd-Chemie India Pvt Ltd.	
	USA		India	
	2017	2016	2017	2016
INVESTMENTS IN JOINT VENTURES				
Summarized financial information				
Interest held %	50%	50%	50%	50%
Revenue	78	80	23	81
Total comprehensive income	5	8	5	15
Net income	5	8	5	15
Other comprehensive income	—	—	—	—
Current assets	81	76	—	179
Non-current assets	29	30	—	13
Current liabilities	-20	-19	—	-87
Non-current liabilities	-7	-8	—	-5
Net assets	83	79	—	100
Reconciliation of book value				
Book value beginning of period	100	95	85	82
Change in scope of consolidation	—	—	-99	—
Share in profit for the period	3	4	15	8
Dividends received	—	—	—	-5
Foreign exchange rate differences	9	1	-1	—
Book value end of the period	112	100	—	85
Group's Share in net assets at the end of the period	43	39	—	50
Fair value adjustment/goodwill	66	66	—	28
Taxes, minorities and other adjustments	3	-5	—	7
Book value at the end of the period	112	100	—	85

Scientific Design Company Inc. is a producer of ethylene and oxide catalysts headquartered in the United States and has around 140 employees. Co-owner is the Saudi Arabia-based Sabic group.

Süd-Chemie India Pvt Ltd (SCIL) is a producer of syngas, air purification and refinery catalysts. It has around 400 employees and is headquartered in India. It is co-owned by private investors based in India.

As of 1 April 2017 this company became a fully consolidated subsidiary of the Clariant Group, see note 25, Acquisitions. The table shows the activities of SCIL for the first three months of 2017.

8. Financial assets

in CHF m	2017	2016
As per 1 January	71	77
Additions	–	9
Repayments and disposals	-27	-17
Exchange rate differences	6	2
At 31 December	50	71

Financial assets include loans to joint ventures, loans arising on disposals and a number of small-scale participations in companies, mostly in Germany and in Switzerland, engaged in activities closely related to the ones of Clariant.

In 2017, loans in the amount of EUR 12 million and of USD 10 million to associates and to companies involved in previously realized disposal projects were repaid.

In 2016, Clariant acquired a 17% stake in BioSpectrum Inc, a South Korean leading developer and supplier of specialty active cosmetics' ingredients derived from Asia's diverse flora. The purchase price amounted to CHF 8 million.

Loans are carried at amortized cost.

Financial assets are mostly denominated in euros, US-dollars and in Swiss francs.

9. Taxes

in CHF m	2017	2016
Current income taxes	-96	-119
Deferred income taxes	-39	44
Total taxes	-135	-75

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

	2017		2016	
	in CHF m	in %	in CHF m	in %
Income before taxes total	437		338	
Expected tax expense/rate¹	-117	26.8	-55	16.3
Effect of taxes on items not tax-deductible	-66	15.1	-35	10.4
Effect of utilization and changes in recognition of tax losses and tax credits	23	-5.3	3	-0.9
Effect of tax losses and tax credits of current year not recognized	-10	2.3	-10	3.0
Effect of adjustments to taxes recognized in prior periods	25	-5.7	-13	3.8
Effect of tax exempt income	62	-14.2	32	-9.5
Effect of other items	-52	11.9	3	-0.9
Effective tax expense/rate	-135	30.9	-75	22.2

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

In 2017, the effective tax rate compared to the expected tax rate was adversely influenced by the deferred tax impact of US tax reform (reported as »Effect of other items« for an amount of CHF 45 million) and to a lower extent by the non-recognition of deferred tax asset on tax losses incurred by subsidiaries mainly in China as their recoverability was not considered probable. On the other hand, the effective tax rate was positively influenced by the utilization of previously unrecognized tax losses/tax credits in Switzerland.

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

in CHF m	PPE and intangible assets	Retirement benefit obligations	Tax losses and tax credits	Other accruals and provisions	Total	Thereof offset within the same jurisdiction	Total
Deferred tax assets at 31 December 2015	88	148	128	—	364	-108	256
Deferred tax liabilities at 31 December 2015	-173	-2	-1	-3	-179	108	-71
Net deferred tax balance at 1 January 2016	-85	146	127	-3	185	—	185
Charged/credited to income from continuing operations	77	-2	-16	-5	54		
Effect of disposals	2	-8	—	-4	-10		
Total charged/credited to income statement	79	-10	-16	-9	44		
Charged/credited to other comprehensive income	—	26	—	—	26		
Effect of business combinations	—	—	—	1	1		
Exchange rate differences	-1	1	—	9	9		
Net deferred tax balance at 31 December 2016	-7	163	111	-2	265	—	265
Deferred tax assets at 31 December 2016	156	163	111	6	436	-138	298
Deferred tax liabilities at 31 December 2016	-163	—	—	-8	-171	138	-33
At 1 January 2017	-7	163	111	-2	265	—	265
Charged/credited to income statement	27	-13	5	-58	-39		
Total charged/credited to income statement	27	-13	5	-58	-39		
Charged/credited to other comprehensive income	—	-36	—	—	-36		
Effect of business combinations	-8	—	9	5	6		
Exchange rate differences	11	6	-2	-9	6		
Net deferred tax balance at 31 December 2017	23	120	123	-64	202	—	202
Deferred tax assets at 31 December 2017	192	131	123	108	554	-287	267
Deferred tax liabilities at 31 December 2017	-169	-11	—	-172	-352	287	-65
Net deferred tax balance at 31 December 2017	23	120	123	-64	202	—	202

Of the deferred tax assets capitalized on tax losses, CHF 68 million refer to tax losses of the US subsidiaries (2016: CHF 68 million), CHF 9 million to tax losses of the Spanish subsidiaries (2016: CHF 8 million), CHF 6 million to tax losses of the Canadian subsidiaries (2016: CHF 5 million) and CHF 6 million to tax losses of the Italian subsidiaries (2016: CHF 6 million). Clariant considers it probable that these tax losses can be recovered.

Deferred income tax liabilities have not been established for withholding tax and other taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested. These unremitted earnings totaled CHF 2 193 million at the end of 2017 (2016: CHF 2 317 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 France (with a tax rate of 33.3%), in Switzerland (with a weighted average tax rate of 20.7%), in China (with a tax rate of 25%) and in Luxembourg (with a tax rate of 27.3%). At present their recoverability is not considered probable.

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

in CHF m	31.12.2017	31.12.2016
Expiry by:		
2017		56
2018	27	25
2019	18	32
2020	31	47
2020	33	—
after 2021 (2016: after 2020)	308	291
Total	417	451

Tax credits amounting to CHF 16 million were recognized in 2017. They expire in and after 2022.

Temporary differences on which no deferred tax was recognized amount to CHF 1 005 million in 2017 (2016: CHF 1 038 million).

10. Inventories

in CHF m	31.12.2017	31.12.2016
Raw material, consumables, work in progress	402	322
Finished products	550	494
Total	952	816

in CHF m	2017	2016
Movements in write-downs of inventories		
As per 1 January	-37	-32
Additions	-19	-15
Reversals	15	10
At 31 December	-41	-37

As at 31 December 2017 and 2016, no inventories were pledged as collateral for liabilities.

The costs for raw materials and consumables recognized as an expense and included in »Costs of goods sold« amounted to CHF 2 784 million (2016: CHF 2 454 million).

11. Trade receivables

in CHF m	31.12.2017	31.12.2016
Gross accounts receivable - trade	1 144	1 032
Gross accounts receivable - associates and joint ventures	18	9
Less: provision for doubtful accounts receivable	-16	-30
Total	1 146	1 011

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

in CHF m	2017	2016
As per 1 January	-30	-28
Charged to the income statement	-18	-13
Amounts used	4	3
Acquired in business combinations	-1	-2
Unused amounts reversed	29	9
Exchange rate differences	—	1
At 31 December	-16	-30

Of the total provision for doubtful accounts receivable, the following amounts concern trade receivables that were individually impaired:

in CHF m	31.12.2017	31.12.2016
Trade receivables aged up to six months	-3	-4
Trade receivables aged over six months	-9	-15
Total provision for impairment	-12	-19

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 the impairment of trade receivables in Selling, general and administrative costs in the income statement.

The maximum credit risk on trade receivables is equal to their fair value.

Collaterals are only required in rare cases (2017: CHF 2 million, 2016: CHF 2 million).

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

in CHF m	31.12.2017	31.12.2016
EUR	410	347
USD	391	320
CNY	89	70
BRL	55	51
JPY	39	35
INR	28	23
Other	134	165
Total	1 146	1 011

As of 31 December 2017, »Total trade receivables – net« include an amount of CHF 141 million (2016: CHF 143 million) 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:

in CHF m	31.12.2017	31.12.2016
Up to three months past due, but not impaired	124	120
Three to six months past due, but not impaired	8	10
More than six months past due, but not impaired	9	13
Total	141	143

12. Other current assets

Other current assets include the following:

in CHF m	31.12.2017	31.12.2016
Other receivables	264	238
Current financial assets	62	47
Prepaid expenses and accrued income	62	59
Total	388	344

Other receivables include, among others, staff loans and advances, VAT and sales tax receivables.

Other receivables are recognized at amortized cost in the balance sheet.

Current financial assets are mainly made up of notes receivables and short-term loans. These are classified as loans and receivables and recognized at amortized cost in the balance sheet.

The book value of current financial assets, recognized at amortized cost, equals their fair value.

There was no impairment of current financial assets in 2017 and 2016.

Other receivables are denominated in the following currencies:

in CHF m	31.12.2017	31.12.2016
CHF	26	34
EUR	93	70
USD	15	14
JPY	4	17
BRL	24	23
CNY	21	10
INR	19	9
Other	62	61
Total	264	238

Current financial assets are denominated in the following currencies:

in CHF m	31.12.2017	31.12.2016
CHF	32	29
USD	12	11
CNY	16	6
EUR	2	1
Total	62	47

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

13. Short-term deposits

Short-term deposits include short-term deposits with an original maturity between 90 and 365 days.

Short-term deposits are denominated in the following currencies:

in CHF m	31.12.2017	31.12.2016
EUR	—	209
CHF	—	40
GBP	37	28
INR	10	—
Total	47	277

14. Cash and cash equivalents

in CHF m	31.12.2017	31.12.2016
Cash at bank and on hand	594	693
Short-term bank deposits	107	350
Total	701	1 043

Cash and cash equivalents are denominated in the following currencies:

in CHF m	31.12.2017	31.12.2016
EUR	204	510
USD	122	174
CHF	188	182
GBP	22	47
CNY	4	30
JPY	12	10
INR	57	19
BRL	15	7
Other	77	64
Total	701	1 043

The effective average annual interest rate on short-term bank deposits in Swiss francs was 0.00 % (2016: 0.00%), these deposits have an average maturity of 34 days (2016: 4 days).

The effective average annual interest rate on short-term bank deposits in euros was 0.03 % (2016: 0.05 %), these deposits have an average maturity of 58 days (2016: 53 days).

The effective average annual interest rate on short-term bank deposits in US-dollars was 1.43 % (2016: 0.73 %), these deposits have an average maturity of 30 days (2016: 30 days).

The effective average annual interest rate on short-term bank deposits in British pounds was 0.38 % (2016: 0.52 %), these deposits have an average maturity of 73 days (2016: 48 days).

There were no short-term bank deposits denominated in currencies other than the Swiss franc, the euro, the US-dollar and the British pound at the end of the reporting period.

CHF 48 million of the cash and cash equivalents are located in the indian subsidiary SCIL, which is co-owned by 50 % non-controlling interest holders and for this reason are not unrestrictedly accessible.

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

15. Cash flow from operating activities

for the years ended 31 December 2017 and 2016

	Notes		2017 in CHF m	2016 in CHF m
Net income			302	263
Adjustment for:				
Depreciation of property, plant and equipment	5	231		210
Impairment	26	16		8
Depreciation of intangible assets	6	70		55
Impairment of working capital		4		24
Income from associates and joint ventures	7	-103		-85
Tax expense	9	135		75
Net financial income and costs	27	65		109
Gain/loss from disposals not qualifying as discontinued operations	24	-3		3
Other non-cash items		37		20
Total reversal of non-cash items			452	419
Dividends received from associates and joint ventures	7		45	85
Payments for restructuring	26		-40	-37
Cash flow before changes in net working capital and provisions¹			759	730
Changes in inventories			-125	-20
Changes in trade receivables			-101	-80
Changes in trade payables			38	17
Changes in other current assets and liabilities			-46	12
Changes in provisions (excluding payments for restructuring)			4	53
Cash generated from operating activities			529	712
Income taxes paid ¹			-101	-66
Net cash generated from operating activities			428	646

¹ »Income taxes paid«, previously recorded in »Cash flow before changes in working capital and provisions« was reclassified to »Cash generated from operating activities«.

16. Changes in share capital and treasury shares and changes in non-controlling interests

Registered shares each with a par value of CHF 3.70 (2016: CHF 3.70)	Number of shares 2017	Par value 2017 in CHF m	Number of shares 2016	Par value 2016 in CHF m
Share capital as per 1 January	331 939 199	1 228	331 939 199	1 228
Share capital at 31 December	331 939 199	1 228	331 939 199	1 228
Treasury shares	-2 641 579	-10	-7 887 728	-29
Outstanding share capital at 31 December	329 297 620	1 218	324 051 471	1 199
Treasury shares (number of shares)			2017	2016
Holdings as per 1 January			7 887 728	9 195 810
Shares purchased at market value			—	819 813
Shares sold on exercise of put options			-800 000	—
Shares sold to counterparty out of options			-3 729 500	—
Shares sold at market value			-200 000	-1 240 318
Shares transferred to employees			-516 649	-887 577
Holdings at 31 December			2 641 579	7 887 728

All shares are duly authorized and fully paid in.

Dividends are paid out as and when declared equally on all shares, excluding treasury shares. The information concerning payments per share to the shareholders are disclosed in the notes to the financial statements of Clariant Ltd.

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 13 of the company's Articles of Incorporation, each share has the right to one vote.

Significant shareholdings of 3% or more of total share capital

Based on the notifications received by Clariant and published by SIX Exchange Regulation, as at 31 December 2017 the following shareholders held more than 3% of voting rights in Clariant Ltd:

Shareholders	Voting rights
White Tale ¹ White Tale Holdings LP, Cayman Islands (Keith Meister; David J. Millstone; David S. Winter) Corvex Holdings LLC, Cayman Islands (Keith Meister) 40 North Latitude Master Fund Ltd., New York (David J. Millstone; David S. Winter)	20.00%
Group of former shareholders of Süd-Chemie AG ²	13.96%
Thereof (as a separate sub-group): Blue Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grosseingharting (Germany) and Maple Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grosseingharting (Germany) ³	3.73%
APG Asset Management N.V., Amsterdam, Netherlands	5.01%
BlackRock Inc., New York	3.80%

¹ As of 31 December 2017, White Tale Holdings LP held 20.00% and subsequently increased their shareholdings to 25.15%. On 25 January 2018, SABIC International Holdings B.V., Sittard, The Netherlands, controlled by the Public Investment Fund of Saudi Arabia (PIF) Riyadh, Saudi Arabia, acquired, subject to the necessary regulatory approvals, a 24.99% stake in Clariant Ltd previously held by White Tale Holdings LP, resp. Corvex Holdings LLC, resp. 40 North Latitude Master Fund Ltd. Thus SABIC has become Clariant Ltd's largest shareholder.

² The following former shareholders of Süd-Chemie AG form a group:
 Wilhelm, Dr. Winterstein, Germany
 Dolf, Dr. Stockhausen, Switzerland
 Axel, Dr. Schweighart, Germany
 Rosemarie Schweighart, Germany
 Dominique Kraus, Germany
 Estate Karl, Dr. Wamsler, Germany
 Irene W. Banning, USA
 Susanne Wamsler-Singer, Austria
 Caroline A., Dr. Wamsler, USA
 Amelie Ratjen, Germany
 Christof Ratjen, Germany
 Christopher Weithauer, Germany
 Johanna Bechtle, Germany
 Kaspar Bechtle, Germany
 Luisa Redetzki, Germany
 Karl T. Banning, USA
 Schuyler H. Joerger, USA
 Konstantin Alfred Winterstein, Germany
 Max-Theodor, Dr. Schweighart, Germany
 Peter, Dr. Schweighart, Germany
 Moritz Ostenrieder, Germany
 Christian Ratjen, Germany
 Bettina Wamsler, Germany
 Pauline Joerger, USA
 Marianne Kunisch, Germany
 Maximilian Ratjen, Germany
 Julius Ratjen, Germany
 Elisabeth Prinzessin zu Sayn-Wittgenstein, Germany
 Georg A. Weithauer, Germany
 Charlotte Bechtle, Germany
 Clara Redetzki, Germany
 Marie Redetzki, Germany
 Sophia P. Joerger, USA

³ According to a disclosure notification published on 18 January 2013, a group consisting of Konstantin Winterstein, 80333 München, Germany, and Elisabeth Prinzessin zu Sayn-Wittgenstein, 80333 München, Germany, holds 3.73% partially through Blue Beteiligungsgesellschaft mbH, Grosseingharting (Germany) and partially through Maple Beteiligungsgesellschaft mbH, Grosseingharting (Germany). The 3.73% held by this group are included in the 13.96% mentioned under footnote 2, but build a separate sub-group.

Disclosure notifications during the financial year 2017 reported to the Stock Exchange Disclosure Office pursuant to Art. 120 of the Financial Markets Infrastructure Act (FMIA) as well as further information in relation to disclosure notifications can be found on the SIX Swiss Exchange reporting platform: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

As of 31 December 2017, former shareholders of Süd-Chemie AG, who had exchanged their shares against Clariant shares in April 2011, held a total of 13.96 % of the share capital of Clariant Ltd. These shareholders are related to each other for family or other reasons (especially the Wamsler, Winterstein, Schweighart and Stockhausen families).

On 31 December 2016, the following shareholders held a participation of 3 % or more of the total share capital:
Group of former shareholders of Süd-Chemie AG: 13.89 %, thereof (as a separate sub-group): Blue Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany), and Maple Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany): 3.73 %; APG Asset Management NV., Amsterdam, Netherlands: 5.01 %; Black Rock Inc., New York: 3.08 %; Cymbria, (Canada): 3.06 %, Citadel: 3.02 %; Norges Bank (the Central Bank of Norway): 3.003 %, UBS Funds Management (Switzerland) AG: 3.001 %.

On 31 December 2017, Clariant AG itself held 2 641 579 shares in treasury, corresponding to 0.8 % of the share capital.

Distribution to shareholders

On 20 March 2017 the Annual General Meeting of Clariant Ltd approved a distribution from the confirmed capital contribution reserves of CHF 0.45 per share. This was paid out on 27 March 2017 reducing the capital contribution reserves by CHF 148 million.

Non-controlling interests

Effective as of April 1, 2017 Clariant re-negotiated the terms of the joint venture agreement of Süd-Chemie India Ltd (SCIL) with the joint venture partner. As a result the company is now a fully consolidated subsidiary of the Clariant Group and the co-owners' stake of 50% in the company is reported as a non-controlling interest (see note 25).

In December 2016 Clariant sold shares of Clariant Chemicals (India) Ltd in the stock market for an amount of CHF 29 million. As a result the percentage of non-controlling interests in this company increased from 35.8 % to 49 %. The transaction resulted in a gain of CHF 16 million, which was recognized in equity.

At 31 December 2017, non-controlling interests reported are primarily made up of those of the four following companies. They amount to more than 84 % of the minority shares reported:

Clariant Huajin Catalysts (Panjin) Ltd, reported sales in the amount of CHF 34 million in the reporting period and total assets in the amount of CHF 38 million as per 31 December 2017. The non-controlling interests of 40 % of the shares outstanding is held by Northern Huajin Chemical Industry Group Co. Ltd.

Clariant Chemicals (India) Ltd reported sales in the amount of CHF 150 million in the reporting period and CHF 136 million of total assets as per 31 December 2017. The non-controlling interests of 49 % of the shares outstanding is traded on the Bombay Stock Exchange (BSE) in Mumbai.

Clariant Catalysts (Japan) K.K. reported sales in the amount of CHF 173 million in the reporting period and CHF 90 million of total assets as per 31 December 2017. The non-controlling interests of 38.6 % of the shares outstanding are held by Nissan Chemicals Industries Ltd.

In the reporting period, Süd-Chemie India Ltd (SCIL) reported sales in the amount of CHF 75 million and total assets of CHF 221 million, thereof current assets of CHF 118 million and non-currents assets of CHF 103 million. Total liabilities amounted to CHF 26 million, thereof current liabilities of CHF 22 million and non-current liabilities of CHF 4 million. As per 31 December 2017 total equity amounted to CHF 195 million. The non-controlling interests of 50 % of the shares outstanding are owned by private shareholders in India.

17. Non-current financial debts

in CHF m	Interest rate in %	Term	Notional amount	Net amount 31.12.2017	Net amount 31.12.2016
Straight bond	5.625	2012-2017	500 EUR m	—	537
Straight bond	3.125	2011-2017	100 CHF m	—	100
Straight bond	2.500	2012-2018	250 CHF m	250	250
Straight bond	3.250	2012-2019	285 CHF m	285	285
Certificate of indebtedness	mixed	2015-2020	150 EUR m	175	161
Certificate of indebtedness	1.012	2016-2020	157 EUR m	183	169
Certificate of indebtedness	6 m EURIBOR +1.05	2016-2020	55 EUR m	65	59
Certificate of indebtedness	0.779	2016-2021	55 EUR m	65	59
Certificate of indebtedness	3 m LIBOR + 1.5	2016-2021	166 USD m	162	169
Certificate of indebtedness	2.618	2016-2021	111 USD m	108	112
Straight bond	3.500	2012-2022	175 CHF m	174	174
Certificate of indebtedness	mixed	2015-2023	150 EUR m	175	161
Certificate of indebtedness	6 m EURIBOR +1.1	2016-2023	13 EUR m	15	14
Certificate of indebtedness	1.137	2016-2023	27 EUR m	31	28
Certificate of indebtedness	1.501	2016-2023	73 EUR m	86	79
Straight bond	2.125	2014-2024	160 CHF m	160	160
Certificate of indebtedness	2.010	2016-2026	15 EUR m	17	16
Total straight bonds and certificates of indebtedness				1 951	2 533
Liabilities to banks and other financial institutions				7	1
Obligations under finance leases				19	11
Subtotal				1 977	2 545
Less: current portion (see note 22)				-250	-637
Total				1 727	1 908
Breakdown by maturity					
			2018	—	251
			2019	287	285
			2020	434	389
			2021	337	341
			2022	174	—
			after 2022 (2016: after 2021)	495	642
Total				1 727	1 908
Breakdown by currency					
			CHF	619	869
			EUR	824	756
			USD	278	281
			Others	6	2
Total				1 727	1 908
Fair value comparison (including current portion)					
Straight bonds				919	1 569
Certificates of indebtedness				1 082	1 026
Others				26	12
Total				2 027	2 607

On 24 January 2017 a bond issued in 2012 in the amount of EUR 500 million (CHF 537 million) reached maturity and was repaid.

On 9 June 2017 a bond issued in 2011 in the amount of CHF 100 million reached maturity and was repaid.

On 21 April 2016, the certificate of indebtedness in 2011 with a notional amount of EUR 123 million reached maturity and was repaid.

On 26 April 2016, Clariant issued four certificates of indebtedness with a total amount of EUR 300 million. These certificates have a term of 4 years (EUR 212 million), 7 years (EUR 73 million) and 10 years (EUR 15 million) respectively. The interest rates range between 0.776 % and 2.010 %.

On 5 August 2016 Clariant issued five certificates of indebtedness with total amounts of EUR 95 million and USD 277 million. These certificates have terms of 5 years (EUR 55 million and USD 277 million) and 7 years (EUR 40 million). While a tranche of EUR 13 million has a variable interest of 6 months EURIBOR plus 1.1 % and a tranche in the amount of USD 166 million has a variable interest of 3 months LIBOR plus 1.5 %, the fixed interest rates range between 0.779 % and 2.618 %.

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.

Fair values of straight bonds are determined by quoted market prices (Level 1 in the fair value hierarchy).

Certificates of indebtedness and other financial debts are recorded at notional amounts, which are a reasonable approximation of the fair values.

Covenants. For the covenants please refer to note 3.1 Financial risk factors.

Exposure of the Group's borrowings to interest rate changes

- Bonds: the interest rates of all bonds are fixed.
- Certificates of indebtedness: the major part of the existing certificates of indebtedness has a fixed coupon.
- Liabilities to banks and other financial institutions consist of bank loans with fixed interest rates mainly.

Collateral. In 2017 and 2016, no assets were pledged as collateral.

18. Reconciliation of net debt

CHF m	31.12.2016	Movements in cash flow	Effect of business combinations	Exchange rate differences	Other non-cash movements	31.12.2017
Cash and cash equivalents	1 043	-391	58	-9	—	701
Short-term deposits	277	-242	5	7	—	47
Financial instruments with positive fair values	5	2	—	—	—	7
Total cash and liquid investments	1 325	-631	63	-2	—	755
Non-current financial debt	-1 908	-8	—	-61	250	-1 727
Current financial debt	-957	648	-1	-7	-250	-567
Borrowings and other financial liabilities	-2 865	640	-1	-68	—	-2 294
Net debt	-1 540	9	62	-70	—	-1 539

CHF m	31.12.2015	Movements in cash flow	Effect of business combinations	Exchange rate differences	Other non-cash movements	31.12.2016
Cash and cash equivalents	789	285	—	-31	—	1 043
Short-term deposits	152	127	—	-2	—	277
Financial instruments with positive fair values	—	5	—	—	—	5
Total cash and liquid investments	941	417	—	-33	—	1 325
Non-current financial debt	-1 859	-700	—	14	637	-1 908
Current financial debt	-394	94	—	-20	-637	-957
Borrowings and other financial liabilities	-2 253	-606	—	-6	—	-2 865
Net debt	-1 312	-189	—	-39	—	-1 540

19. 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 as part of the non-current liabilities.

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 (revised) are reappraised annually and reassessed at least every three years by independent actuaries. Assets are valued at fair value.

Pension assets for funded defined benefit pension plans are managed according to local rules and legislation in each country.

The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risks in the risk profile. For this purpose Asset Liability Matching studies are conducted by third-party experts on a regular basis to ensure that investment strategies for pension assets are in line with the structure of the plan members of the pension plan concerned.

In all countries with funded defined benefit plans the body governing the investment policy is constituted in accordance with local legal requirements. To the extent legally permitted Clariant Corporate exercises influence to ensure that the investment policy is set in a way to serve best the needs of the pension plan and its members.

The largest defined benefit plans are operated in Switzerland, the United Kingdom, the United States and Germany. These plans make up 94 % of the total defined benefit obligation.

The most important German plan is unfunded and covers the supplementary pension liabilities for plan members whose salaries exceed the level of the German mandatory social security coverage. Contributions are made primarily by the employer and vary depending on the salary level of the plan members. Benefits are paid out as annual pensions amounting to 20 % of total contributions. Lump sum payments to employees are possible to the extent of the voluntary contributions. For employees having joined or joining in 2011 and later there exists a funded pension plan. Contributions are primarily paid into the plan by the employer and vary depending on the income of the individual plan member. Employees contribute to the plan up to 2 % of pensionable earnings on a voluntary basis, to which the employer contributes an equal amount on top of the regular contributions. Pensions paid by this plan are principally based on the return on plan assets (contributions paid in plus interest), apart from a minimal interest. In addition there exists a smaller, similarly structured funded defined benefit plan for former employees of the Süd-Chemie group, acquired in 2011. All other pension liabilities regarding German staff members are covered by a funded multi-employer plan which is accounted for as a defined contribution plan.

The defined benefit obligation in the United Kingdom is a funded plan covering the pension liabilities of UK employees who joined the company before 31 December 2001 and was closed to further accruals in April 2016. All staff members are now covered by a defined contribution plan. The defined benefit pension plan is fully funded according to legal requirements. Yet, in view of the high number of non-active plan members, additional contributions may be necessary in future years.

In the United States Clariant operates a funded defined benefit pension plan covering the pension liabilities of employees who joined the company before 31 December 2000. Contributions are paid by the employer exclusively. Benefits are paid out as lifetime pensions determined on the basis of a final/career average calculation. Staff members who joined on 1 January 2001 or later are covered by a defined contribution plan. For members of Management whose annual salaries exceed the amount of CHF 265 000 an additional pension scheme is in place in the form of an unfunded defined benefit obligation, which covers the part exceeding this amount. The US pension plan is currently underfunded according to local legal requirements. Additional funding measures in the amount of up to CHF 30 million are scheduled over the next five years.

US- employees transferred to Clariant with the Hoechst Specialty Chemicals business remain insured with Hoechst for their pension claims incurred prior to 30 June 1997.

In Switzerland, Clariant operates a funded defined benefit pension plan that covers the pension liabilities of all employees of the Swiss Clariant companies up to a salary level of CHF 200 000.

Both the employer and the employees contribute to the plan, the employer paying two thirds of the total contributions. The pension plan provides lifetime pensions determined based on cumulative savings of the individual plan member and converted into an annual pension at a fixed conversion rate. Lump sum payments are possible up to 40 % of the total individual cumulative savings.

The Swiss pension plan is marked by a shrinking operating basis, and as a result, an increasing share of retired members. Additional funding measures in the amount of CHF 34 million are therefore scheduled over the next eight years.

For members of Management whose annual salaries exceed the amount of CHF 200 000, an additional pension scheme is in place in the form of a funded defined benefit obligation.

Any shortfalls in funded provisions for pension commitments to members of the Executive Committee are accounted for as an unfunded defined benefit obligation.

Mortality tables

The following mortality tables were used to determine the defined pension obligation of the most important pension plans:

Switzerland	BVG 2015 generation table
Germany	Richttafeln 2005 by Prof. Dr. Klaus Heubeck
UK	SAPS S1 series amount tables (base table) CMI Model (2016) (future improvements)
USA	RP 2014 mortality table with projection scale MP-2017

Post-employment medical benefits. The Group operates a number of post-employment medical benefit schemes in the United States, 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 are as follows:

in CHF m	Pension plans (funded and unfunded)		Post-employment medical benefits (unfunded)	
	2017	2016	2017	2016
As per 1 January	2 729	2 551	87	81
Current service cost	41	38	1	1
Past service cost/gain including curtailments	5	5	—	—
Gain/loss on settlements	-2	-2	—	—
Interest costs on obligation	47	54	3	3
Contributions to plan by employees	11	11	—	—
Benefits paid out to personnel in reporting period	-117	-121	-5	-4
Remeasurements :				
Actuarial gain/loss arising from changes in demographic assumptions	-16	37	—	2
Actuarial gain/loss arising from changes in financial assumptions	6	188	4	2
Actuarial gain/loss due to experience adjustments	—	33	-1	-1
Liabilities acquired in a business combination	1	—	—	—
Effect of liabilities extinguished on settlements	—	-1	—	—
Exchange rate differences	62	-64	-2	3
At 31 December	2 767	2 729	87	87

Changes in the fair value of plan assets are as follows:

in CHF m	2017	2016
As per 1 January	1 934	1 850
Assets acquired in business combinations	1	—
Interest income on plan assets	33	38
Contributions to plan by employees	11	11
Contributions to plan by employer	55	56
Benefits paid out to personnel in reporting period	-92	-100
Remeasurements:		
Return on plan assets (excluding amount included in interest expense)	111	146
Effect of assets distributed in settlements	—	-1
Exchange rate differences	20	-66
At 31 December	2 073	1 934

As at 31 December 2017 and 2016, the pension plan assets did not include any directly held registered shares or bonds issued by Clariant Ltd.

The amounts recognized in the balance sheets are as follows:

in CHF m	Defined benefit pension plans		Post-employment medical benefits		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Present value of funded obligations	-2 117	-2 123	—	—	-2 117	-2 123
Fair value of plan assets	2 073	1 934	—	—	2 073	1 934
Overfunding/Deficit	-44	-189	—	—	-44	-189
Present value of unfunded obligations	-651	-606	-87	-87	-738	-693
Net liabilities in the balance sheet	-695	-795	-87	-87	-782	-882

Thereof recognized in:

in CHF m	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Retirement benefit obligations	-762	-831	-87	-87	-849	-918
Prepaid pension assets	67	36	—	—	67	36
Net liabilities in the balance sheet for defined benefit plans	-695	-795	-87	-87	-782	-882

The amounts recognized in the income statement and in other comprehensive income are as follows:

in CHF m	Defined benefit pension plans		Post-employment medical benefits		Total	
	2017	2016	2017	2016	2017	2016
Current service cost	-41	-38	-1	-1	-42	-39
Net interest cost	-14	-16	-3	-3	-17	-19
Past service cost/gain including curtailments	-5	-5	—	—	-5	-5
Gain/loss on settlements	2	2	—	—	2	2
Components of defined benefit expense reported in the income statement	-58	-57	-4	-4	-62	-61
Actuarial gain/loss arising from changes in demographic assumptions	16	-37	—	-2	16	-39
Actuarial gain/loss arising from changes in financial assumptions	-6	-188	-4	-2	-10	-190
Actuarial gain/loss due to experience adjustments	—	-33	1	1	1	-32
Return on plan assets (excluding amount included in net interest expense)	111	146	—	—	111	146
Components of defined benefit expense reported in other comprehensive income	121	-112	-3	-3	118	-115
Total defined benefit expense	63	-169	-7	-7	56	-176

The fair value of the plan assets is split into the major assets categories as follows:

in CHF m	31.12.2017	31.12.2016
Equities	551	533
<i>thereof based on quoted market prices</i>	536	523
Bonds	690	627
<i>thereof based on quoted market prices</i>	657	613
Cash	75	66
<i>thereof based on quoted market prices</i>	75	66
Property	302	295
<i>thereof based on quoted market prices</i>	235	207
Alternative investments	455	413
<i>thereof based on quoted market prices</i>	272	237
Total fair value of plan assets	2 073	1 934

The principal actuarial assumptions at the balance sheet dates in percent are as follows:

		2017 in %						2016 in %				
		Group		Most important countries			Group		Most important countries			
		Weighted average	Switzerland	United Kingdom	United States	Germany	Weighted average	Switzerland	United Kingdom	United States	Germany	
Discount rate		1.7	0.6	2.7	3.7	1.8	1.7	0.5	2.9	4.1	1.8	
Future salary increases		1.8	1.5	—	3.0	2.5	1.7	1.5	—	3.0	2.5	
Long-term increase in health care costs		5.1	—	—	5.9	—	6.5	—	—	7.5	—	
Current average life expectancy for a 65 year old male	in years	18	22	22	21	19	19	22	23	21	19	
Current average life expectancy for a 65 year old female	in years	21	23	24	23	23	22	23	25	23	23	

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

2017 in CHF m	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	7	-6

2016 in CHF m	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	7	-6

A 25 basis-point change in discount rate would have the following effects on the obligation for pension plans:

in CHF m	25 basis point increase		25 basis point decrease	
	2017	2016	2017	2016
Effect on defined benefit obligation	-96	-83	101	99

Would life expectancy increase by one year, the defined benefit obligation would increase by CHF 110 million (2016: CHF 104 million).

Defined contribution post-employment plans. In 2017, CHF 26 million were charged to the income statement as contributions to defined contribution plans (2016: CHF 24 million).

In Germany, approximately 4 900 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 2016, the pension fund's obligations are fully funded. Also for 2017, it is anticipated that the pension plan liabilities are covered by the respective assets.

In the case where the multi-employer plan faces a situation in which 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 paid out to the entitled parties. In the case of a reduction of the benefits this must be compensated by the employer according to German legislation. If the pension plan were unwound the remaining funds would be distributed among the plan members. In case there are no plan members left, the remaining funds would be transferred to social institutions.

If Clariant withdrew from the pension fund, all rights and obligations of the employer against the pension plan would remain in force as long as the pension plan continues to render pension services to the group's plan members. Based on the number of plan members (active and passive) Clariant's share in the pension plan amounts to approximately 8%.

Clariant's contribution to this pension plan amounted to CHF 16 million in 2017 (CHF 16 million in 2016) and is expected to be CHF 16 million in 2018.

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.

in CHF m	Pension plans		Post-employment medical benefits	
	2017	2016	2017	2016
Clariant Group regular and supplemental contributions (employer's contributions):				
Actual contributions in 2016		56	—	—
Estimated contributions in 2017 (2016: estimated)	55	53	—	—
Estimated contributions in 2018	56	53	—	—
Estimated contributions in 2019	40	37	—	—
Estimated contributions in 2020	49	47	—	—
Estimated contributions in 2021	39	37	—	—
Estimated contributions in 2022	38	—	—	—
Payments to beneficiaries:				
Actual payments in 2016		-121		-4
Actual payments in 2017 (2016: estimated)	-117	-114	-4	-5
Estimated payments in 2018	-124	-113	-6	-6
Estimated payments in 2019	-118	-114	-6	-6
Estimated payments in 2020	-121	-116	-6	-6
Estimated payments in 2021	-123	-117	-6	-6
Estimated payments in 2022	-125		-6	
Allocation of defined benefit obligation to plan members (in CHF m):				
Active members	848	824	39	40
Deferred members	355	349	6	6
Retired members	1 564	1 556	42	41
Total funded and unfunded obligations at 31 December	2 767	2 729	87	87
Weighted average duration of the defined benefit obligation at the end of reporting period (in years):				
At 31 December	14.6	14.9	11.3	11.0

20. Movements in provisions

in CHF m	Environmental provisions	Personnel provisions	Restructuring provisions	Other provisions	Total provisions 2017	Total provisions 2016
As per 1 January	109	167	72	122	470	445
Additions	39	213	41	70	363	297
Effect of business combinations	—	1	—	—	1	3
Amounts used	-17	-200	-40	-42	-299	-226
Unused amounts reversed	-2	-16	-8	-39	-65	-47
Changes due to the passage of time and changes in discount rates	4	—	—	1	5	4
Exchange rate differences	1	5	5	—	11	-6
At 31 December	134	170	70	112	486	470
Of which						
- Current portion	33	149	52	86	320	313
- Non-current portion	101	21	18	26	166	157
Total provisions	134	170	70	112	486	470
Expected outflow of resources						
Within 1 year	33	149	52	86	320	313
Between 1 and 3 years	35	9	15	15	74	61
Between 3 and 5 years	16	2	2	5	25	22
Over 5 years	50	10	1	6	67	74
Total provisions	134	170	70	112	486	470

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 Germany, Brazil, the United States, Switzerland 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.

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. When the Group has approved a formal plan and has either started to implement the plan or announced its main features to the public, a restructuring provision is created. The restructuring

provisions newly added in 2017 concern site closures and headcount reductions in various countries with the largest amounts incurred in Germany, France, the United States and Morocco.

For further information regarding restructuring measures refer to note 26.

Other provisions. Other provisions include provisions for obligations relating to tax (other than income tax) and legal cases and other items in various countries for which the amount can 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.

21. Trade payables and other liabilities

in CHF m	31.12.2017	31.12.2016
Trade payables	756	683
Payables to associates and joint ventures	61	57
Accruals	229	304
Other liabilities	249	184
Total trade payables and other liabilities	1 295	1 228
Reclassified to non-current liabilities	-79	-78
Total current trade payables and other liabilities	1 216	1 150

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

An amount of CHF 79 million (2016: CHF 78 million) with a maturity date exceeding twelve months was reclassified to non-current liabilities. Prior-year numbers were adjusted accordingly.

22. Current financial debts

in CHF m	31.12.2017	31.12.2016
Banks and other financial institutions	317	320
Current portion of non-current financial debts (see note 17)	250	637
Total	567	957
Breakdown by maturity:		
in CHF m	31.12.2017	31.12.2016
Up to three months after the balance sheet date	255	812
Three to six months after the balance sheet date	57	122
Six to twelve months after the balance sheet date	255	23
Total	567	957

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

A bond issued in 2012 with a nominal value of CHF 250 million will fall due in 2018 and was therefore reclassified to current financial debts.

A bond issued in 2012 with a nominal value of EUR 500 million and a book value of CHF 537 million per end of 2016 and a bond issued in 2011 with a nominal value of CHF 100 million fell due in January and June 2017 respectively and were repaid.

The fair value of financial debt at banks and other financial institutions approximates its carrying amount due to the short-term nature of these instruments.

23. Segment information

Clariant has grouped its activities into four Business Areas (reportable segments): Care Chemicals (BU ICS), Catalysis (BU Catalysts), Natural Resources (BU Oil & Mining Services, BU Functional Minerals) and Plastics & Coatings (BU Additives, BU Masterbatches, BU Pigments).

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

Segment assets consist of property, plant and equipment, goodwill, intangible assets, 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 tax liabilities, provisions, pension liabilities and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangibles.

SEGMENTS in CHF m	Care Chemicals		Catalysis		Natural Resources		Plastics & Coatings		Corporate		Total Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Segment sales	1 589	1 473	767	673	1 364	1 190	2 709	2 547	—	—	6 429	5 883
Sales to other segments	-14	-8	—	—	-7	-6	-31	-22	—	—	-52	-36
Total sales	1 575	1 465	767	673	1 357	1 184	2 678	2 525	—	—	6 377	5 847
Operating expenses	-1 375	-1 254	-639	-571	-1 223	-1 039	-2 381	-2 256	-263	-215	-5 881	-5 335
Thereof:												
Income from associates and joint ventures	10	9	11	13	5	12	30	34	47	17	103	85
Gain/loss from disposals not qualifying as discontinued operations	—	—	—	—	—	—	1	-2	2	-1	3	-3
Restructuring, impairment and transaction-related costs	-30	-10	-7	-11	-14	-14	-14	-18	-115	-54	-180	-107
Operating income	200	211	128	102	134	145	297	269	-263	-215	496	512
Net financial expenses and taxes											-194	-249
Net income											302	263
Segment assets	1 160	1 096	1 780	1 673	1 298	1 296	1 798	1 693			6 036	5 758
Segment liabilities	-244	-206	-90	-95	-150	-135	-273	-249			-757	-685
Net operating assets	916	890	1 690	1 578	1 148	1 161	1 525	1 444	—	—	5 279	5 073
Net assets held for sale	10	—	5	5	4	—	2	2	1	—	22	7
Corporate assets without cash									1 416	1 275	1 416	1 275
Corporate liabilities without financial liabilities									-2 239	-2 269	-2 239	-2 269
Net debt (see note 18)									-1 539	-1 540	-1 539	-1 540
Total net assets	926	890	1 695	1 583	1 152	1 161	1 527	1 446	-2 361	-2 534	2 939	2 546
Thereof:												
Investments in PPE and intangibles for the period	61	79	36	87	49	40	86	82	47	48	279	336
Investments in associates and joint ventures at the end of the period	64	56	121	193	9	14	154	148	160	105	508	516
Reconciliation of key figures												
Operating income	200	211	128	102	134	145	297	269	-263	-215	496	512
Add: systematic depreciation of PPE	54	49	41	30	36	27	68	69	32	35	231	210
Add: impairment	—	—	1	5	1	—	12	3	2	—	16	8
Add: amortization of intangible assets	6	6	22	17	23	14	10	10	9	8	70	55
EBITDA¹	260	266	192	154	194	186	387	351	-220	-172	813	785
Add: restructuring, impairment and transaction-related costs	30	10	7	11	14	14	14	18	115	54	180	107
Less: impairment	—	—	-1	-5	-1	—	-12	-3	-2	—	-16	-8
Less: gain/loss from disposals not qualifying as discontinued operations	—	—	—	—	—	—	-1	2	-2	1	-3	3
Adjusted EBITDA	290	276	198	160	207	200	388	368	-109	-117	974	887
Operating income	200	211	128	102	134	145	297	269	-263	-215	496	512
Add: restructuring, impairment and transaction-related costs	30	10	7	11	14	14	14	18	115	54	180	107
Less: gain/loss from disposals not qualifying as discontinued operations	—	—	—	—	—	—	-1	2	-2	1	-3	3
Adjusted operating income	230	221	135	113	148	159	310	289	-150	-160	673	622

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

Reconciliation of segment assets to total assets		
in CHF m	31.12.2017	31.12.2016
Segment assets	6 036	5 758
Segment assets reported as assets held for sale	21	7
Corporate assets reported as assets held for sale	1	—
Corporate assets without cash	1 416	1 275
Cash	701	1 043
Short-term deposits	47	277
Financial instruments with positive fair values	7	5
Total assets	8 229	8 365

in CHF m	Sales ¹		Non-current assets ²	
	2017	2016	31.12.2017	31.12.2016
EMEA	2 674	2 423	2 438	2 368
<i>of which Germany</i>	757	672	1 458	1 470
<i>of which Switzerland</i>	34	36	585	512
<i>of which MEA</i>	480	419	62	74
North America	1 241	1 120	1 234	1 321
<i>of which USA</i>	1 143	1 030	1 213	1 299
Latin America	830	846	248	253
<i>of which Brazil</i>	355	327	146	156
Asia/Pacific	1 632	1 458	663	550
<i>of which China</i>	534	474	182	185
<i>of which India</i>	209	182	217	103
Total	6 377	5 847	4 583	4 492

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.

For a description of the Business Units see note 1.23.

24. Disposals

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 2017 and 2016:

On 30 November 2017 Clariant sold its shares (36.03%) in New Zealand based Chemcolour Industries (NZ) Ltd. to Azelis Australia PTY Ltd. for a total consideration of CHF 8 million. The profit recorded on the transaction in 2017 amounted to CHF 3 million.

On 31 October 2016 Clariant sold its POS tinter colorants business pertaining to the Business Unit Pigments to the Canada-based ICTC Group. The transaction comprised assets in Italy and India mainly. The transaction price amounted to less than CHF 1 million and resulted in a loss of CHF 2 million.

On 30 December 2016 Clariant sold its 100% shareholding in Clariant Insurance Ltd (Liechtenstein) to R&Q Insurance (Malta) Ltd for a total consideration of CHF 9 million. A loss of CHF 1 million was realized on the transaction.

The result from disposals not qualifying as discontinued operations is reported under »Selling, general and administrative costs« in the income statement.

Other assets held for sale

An amount of CHF 22 million relates to property, plant and equipment held for sale in Turkey, Italy and in China (2016: CHF 7 million).

25. Acquisitions

Full consolidation of Süd-Chemie India Ltd. (SCIL)

As of 1 April 2017 Clariant fully consolidated the company SCIL, which was until that time accounted for as a joint venture and as such was valued at equity. Clariant's share in SCIL is 50 %, while the other 50 % are owned by private investors in India.

In view of SCIL's significance for Clariant's Catalysis activities in Asia, management successfully renegotiated the joint venture contracts. The new terms introduced a casting vote for Clariant to direct the relevant activities. The contractual change and the 50 % voting rights resulted in Clariant obtaining control over SCIL. As no consideration was paid, nor any shares were purchased or sold, this transaction is treated as an acquisition without consider-

ation. Prior to the full consolidation Clariant already owned 50 % of SCIL. In a first step this participation was revalued to fair value resulting in an income of CHF 10 million recognized in »Income from associates and joint ventures« in the income statement.

In a second step assets and liabilities of the company as per 1 April 2017 were included in the balance sheet, while the participation in the joint venture was derecognized. The co-owners' share in SCIL is recognized in non-controlling interests. Goodwill, included in non-current assets, amounted to CHF 63 million.

The table below shows the allocation of the value to assets acquired and liabilities assumed.

in CHF m	2017 (at fair value)
Total consideration for purchase	—
Recognized amounts of identifiable assets and liabilities assumed:	
Property plant and equipment	16
Intangible assets	35
Inventories	23
Receivables	31
Cash and cash equivalents	58
Financial debt	-1
Other assets and liabilities	-14
Deferred tax liabilities	-13
Fair value of net assets acquired	135
Non-controlling interests	99
Fair value of shareholding reported prior to full consolidation	99
Goodwill	63

The goodwill of CHF 63 million arising from the transaction is attributable to a number of factors such as future growth potential in line with historical levels and cost synergies.

Had the change of scope of consolidation taken place on 1 January, 2017 Group sales would have been CHF 16 million higher and the Group operating result would have been CHF 3 million higher, while the net result available to Clariant shareholders would have remained unchanged. Since the initial full consolidation as of 1 April 2017 the company contributed sales in the amount of CHF 37 million and a net result of CHF 20 million to the consolidated result.

Acquisition of Kel-Tech Inc.

On 1 October 2016 Clariant acquired from Arsenal Capital Partners 100% of the shares of Kel-Tech Inc. for a total consideration of CHF 223 million, out of which CHF 202 million were paid in 2016 and CHF 21 million were considered as contingent consideration.

As the sales goals that would have triggered an earn-out up to a maximum of CHF 35 million were not met in 2017 the respective provision in the amount of CHF 21 million was reversed in the line »Sales, general & administration« in the income statement in 2017.

The acquired company is based in Midland, Texas, USA, and is a manufacturer and supplier of specialty chemicals for production, field stimulation and drilling applications in the oil-service business throughout onshore United States. This acquisition pertains to the Business Unit Oil & Mining Services.

Since its acquisition, Kel-Tech Inc. is fully consolidated in Clariant's financial statements. The summary of the financial impact of consolidating Kel-Tech Inc. in the accounts at the acquisition date, using the fair values of identified assets and liabilities is as reported below. The acquired intangible assets comprise mainly customer relationships, developed technology, know-how and the trade name.

In 2017 the provisional fair values of the acquired net assets of Kel-Tec Inc. were adjusted within the measurement period following the acquisition. As a result goodwill decreased by CHF 14 million to CHF 119 million compared to CHF 133 million at the acquisition date. The major part of the adjustment concerns the recognition of a deferred tax asset on losses incurred prior to the acquisition date, the valuation of property, plant and equipment and inventories.

in CHF m	2017 (at fair value)
Total cash outflow for the acquisition in 2016	202
Contingent consideration/allocated earn-out payable in 2018	21
Total consideration for purchase	223
Recognized amounts of identifiable assets and liabilities assumed:	
Property, plant and equipment	24
Intangible assets	52
Inventories	9
Receivables	10
Other assets and liabilities	-9
Deferred tax assets	18
Fair value of net assets acquired	104
Goodwill	119

For this acquisition, costs of CHF 2 million, comprising M&A, legal costs, tax advisory and consulting charges, were recognized in »Selling, general and administrative costs« in the year 2016.

From the acquisition date up to the end of the year 2016, Kel-Tech Inc. reported net sales of CHF 20 million and a breakeven operating result including CHF 2 million of depreciation and amortization. This result includes the above-mentioned items of a one-time nature which were incurred in connection with the takeover by Clariant. If the acquisition had occurred on 1 January 2016, Group sales would have been CHF 59 million higher and the operating result would have been CHF 5 million higher.

Acquisition of X-Chem LLC

On 1 October 2016 Clariant acquired from NCH Corporation the activities of X-Chem LLC in a combined asset and share deal for a total consideration of CHF 140 million. The acquired company is based in Irving, Texas, USA and is a provider of specialty oilfield chemicals for the production, completion and stimulation of oil wells, gas wells and pipelines focused on land and offshore United States. This acquisition pertains to the Business Unit Oil & Mining Services.

Since its acquisition, X-Chem LLC is fully consolidated in Clariant's financial statements. The summary of the financial impact of consolidating X-Chem LLC in the accounts at the acquisition date, using the fair values of identified assets and liabilities is as reported below.

in CHF m	2017 (at fair value)
Total cash outflow for the acquisition in 2016	139
Total consideration for purchase	139
Recognized amounts of identifiable assets and liabilities assumed:	
Property, plant and equipment	21
Intangible assets	76
Inventories	8
Receivables	17
Other assets and liabilities	-5
Fair value of net assets acquired	117
Goodwill	22

For this acquisition costs of CHF 3 million, comprising M&A, legal costs, tax advisory and consulting charges, were recognized in »Selling, general and administrative costs« in the year 2016.

From the acquisition date up to the end of the year 2016, X-Chem LLC reported net sales of CHF 20 million and a breakeven operating result including CHF 2 million of depreciation and amortization. This result includes the above-mentioned items of a one-time nature which were incurred in connection with the takeover by Clariant. If the acquisition had occurred on 1 January 2016, Group sales would have been CHF 64 million higher and the operating result would have remained at the same level.

The acquired intangible assets comprise mainly customer relationships, developed technology, know-how and the trade name.

In 2017 the provisional fair values of the acquired net assets of X-Chem LLC were adjusted within the measurement period following the acquisition. As a result goodwill increased by CHF 8 million to CHF 22 million compared to CHF 14 million at the acquisition date, mainly as a correction of the value of inventories and property, plant and equipment taken over.

The goodwill arising from the acquisition of Kel-Tech Inc. and X-Chem LLC is attributable to a number of factors such as future growth potential in line with historical levels, significant cost synergies and the acquired workforce.

Acquisition of the Vivimed personal care portfolio

On 8 January 2016 Clariant acquired the specialty chemicals segment of Vivimed Labs Ltd, India. This acquisition complements Clariant's personal care portfolio in India with actives to formulate broader solutions within the sun, skin, hair and oral care range as well as antimicrobial preservatives. It expands Clariant footprint in the region of the Business Unit Industrial & Consumer Specialties (ICS).

Since its acquisition by Clariant India Ltd, the acquired business is fully consolidated in its financial statements. The summary of the financial impact at the acquisition date on Clariant consolidated accounts, using the fair values of identified assets and liabilities, is as reported below. The intangible assets acquired consist of customer relationships, technical know-how and in-process research and development projects.

in CHF m	2016 (at fair value)
Total cash outflow for the acquisition in 2016	53
Total consideration for purchase	53
Recognized amounts of identifiable assets and liabilities assumed:	
Property, plant and equipment	9
Intangible assets	19
Inventories	2
Receivables	4
Other assets and liabilities	-2
Fair value of net assets acquired	32
Goodwill	21

For this acquisition costs of CHF 0.5 million, comprising M&A and consulting charges, were recognized in »Selling, general and administrative costs« in the year 2016.

The goodwill resulting from this acquisition is attributable to a number of factors such as future growth potential, cost synergies and the acquired workforce.

Acquisition of the remaining shares in the Consortium with Carboflex

On 13 June 2016 Clariant acquired the Carboflex 50 % stake in the consortium that built and operates a plant in Rio de Janeiro in Brazil. The facility produces chemicals used in oil and gas wells. The purchase price for the remaining 50 % shares totals CHF 11 million, out of which CHF 8 million were paid in June 2016 and the remaining CHF 3 million are held back for potential indemnifications by Clariant on behalf of Carboflex. The assets acquired mainly consist of customer relationships and property, plant and equipment.

The transaction was treated as a two-step acquisition. The 50 % shares already held were remeasured to fair value, which led to an income of CHF 7 million, recognized in Income from associates and joint ventures. No material goodwill arose on the acquisition. This acquisition pertains to the Business Unit Oil & Mining Services.

Acquisition of SQE Olivene S.r.l.

On 1 March 2016 Clariant acquired 100 % of the shares of SQE Olivene S.r.l., Italy from a private owner. The company specializes in the manufacture of squalenes and squalanes used in the cosmetics industry. The purchase price amounted to CHF 3 million. The assets acquired mainly consist of intangibles (customer lists, trade-names and a non-compete clause) and inventories. The generated goodwill amounts to CHF 1 million. This acquisition pertains to the Business Unit Industrial & Consumer Specialties (ICS).

Acquisition of the Mining Service Business of Flomin Inc.

On 31 October 2016 Clariant purchased from Flomin Inc., Delaware, USA, the Mining Service activities consisting of customer relationships, developed technology and inventories. The business consists of the manufacture and sale of specialty reagents including collectors, frothers and solvent extractants for the global mining industry. The purchase price amounted to CHF 11 million and resulted in a goodwill of CHF 5 million. This acquisition pertains to the Business Unit Oil & Mining Services.

Acquisition of Chemical & Mining Services Pty Ltd

On 1 November 2016 Clariant purchased 100 % of the shares of Chemical & Mining Services Pty Ltd, Australia, from private investors. The company is a supplier of flotation reagents and technical services relating to base and precious metals flotation to the mineral processing industry. The purchase price totals CHF 5 million out of which CHF 4 million were paid and the remaining CHF 1 million represent a contingent consideration that will be due if certain sales targets are met in 2018.

In 2017 the provisional fair values of the acquired net assets were adjusted within the measurement period following the acquisition and resulted in a final goodwill of CHF 2 million.

This acquisition pertains to the Business Unit Oil & Mining Services.

26. Restructuring, impairment and transaction-related costs

in CHF m	2017	2016
Restructuring expenses	-37	-53
Payments for restructuring	-40	-37
Impairment loss	-16	-8
<i>thereof charged to PPE (see note 5)</i>	-5	-9
<i>thereof charged to intangible assets (see note 6)</i>	-11	-
<i>thereof charged to investments in associates and joint ventures (see note 7)</i>	-	1
Transaction-related costs	-127	-46
Total restructuring, impairment and transaction-related costs	-180	-107

In order to increase profitability over a sustained period, Clariant implements measures designed to improve the Group's performance. The aim of these efforts is to increase the Group's operating result and to reduce net working capital. The changes made to the processes and structures result in a reduction of headcount across the Group.

Restructuring. In 2017, Clariant recorded expenses for restructuring in the amount of CHF 37 million (2016: CHF 53 million). This concerned restructuring measures mainly in Germany, France, Switzerland and Morocco.

Impairment. The impairment loss recorded in 2017 as well as in 2016 concerned mainly site closures in China.

Transaction-related costs comprise expenses incurred in connection with acquisition or disposal projects and also costs incurred in connection with the implementation of internal reorganizational measures.

The total amount of CHF 180 million of Restructuring, impairment and transaction-related costs (2016: CHF 107 million) is reported in the income statement as follows: CHF 10 million in Costs of goods sold (2016: CHF 28 million), CHF 158 million in Selling, general and administrative costs (2016: CHF 73 million), CHF 8 million in Research & Development costs (2016: CHF 7 million) and CHF 4 million in Income from associates and joint ventures (2016: CHF 1 million income).

27. Finance income and costs

FINANCE INCOME		
in CHF m	2017	2016
Interest income	12	9
<i>thereof interest on loans, receivables and deposits</i>	12	9
Other financial income	23	3
Total finance income	35	12
FINANCE COSTS		
in CHF m	2017	2016
Interest expense	-93	-109
<i>thereof effect of discounting of non-current provisions</i>	-5	-4
<i>thereof net interest component of pension provisions</i>	-17	-19
Other financial expenses	-7	-12
Total finance costs before currency result	-100	-121
Currency result, net	6	-65
Total finance costs	-94	-186

Other financial expenses include bank charges and miscellaneous financial expenses.

In 2017 and 2016, no foreign exchange gains pertaining to the ineffective part of hedges on net investments were recognized in the income statement.

Interest expense, other than the effect of discounting non-current provisions and the interest component of pension provisions, pertain to financial debts measured at amortized cost.

Interest costs capitalized on qualifying assets for 2017 was CHF 4 million (2016: CHF 7 million).

28. 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).

	2017	2016
Total net income attributable to shareholders of Clariant Ltd undiluted and diluted (in CHF m)	277	253
Weighted average number of shares outstanding		
As per 1 January	323 712 538	322 202 845
Effect of transactions with treasury shares on weighted average number of shares outstanding	4 598 357	1 509 693
Weighted average number of shares outstanding at 31 December	328 310 895	323 712 538
Adjustment for granted Clariant shares	1 704 035	1 645 919
Adjustment for dilutive share options	—	16 322
Weighted average diluted number of shares outstanding at 31 December	330 014 930	325 374 779
Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share)	0.84	0.78
Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)	0.84	0.78

The dilution effect is triggered by two 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 1 January of the respective period.

The second 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 1 January of the same period.

The effect of the services still to be rendered during the vesting period were taken into consideration.

Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

In 2017, a payout of CHF 0.45 per share was made out of the capital contribution reserves (see note 16).

29. Derivative financial instruments

Risk management (hedging) instruments and off-balance sheet risks. Clariant uses forward foreign exchange rate and option contracts, currency options as well as other financial instruments to hedge the Group's risk exposure to volatility in interest rates, currencies and prices 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 costs 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 contain costs, the Group does not hedge the entire exposure.

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

DERIVATIVE FINANCIAL INSTRUMENTS						
in CHF m	Contract or underlying principal amount		Positive fair values		Negative fair values	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Interest-rate-related instruments						
Interest-rate swaps	162	169	5	5	—	—
Currency-related instruments						
Forward foreign exchange rate contracts	111	98	2	—	-1	-2
Total derivative financial instruments	273	267	7	5	-1	-2

The fair value of these derivative financial instruments is recorded in Other current assets in the balance sheet in the case of a positive value or as »Current financial debts« in the case of a negative value and if the instruments expire within the next twelve months.

If the remaining lifetime exceeds twelve months, the value is recorded in Financial assets in case it is positive and in Non-current financial debts in case it is negative.

DERIVATIVE FINANCIAL INSTRUMENTS BY MATURITY

in CHF m	31.12.2017	31.12.2016
Breakdown by maturity:		
Up to one month after the balance sheet date	27	28
More than one and up to three months after the balance sheet date	75	53
More than three and up to twelve months after the balance sheet date	9	17
More than one and up to five years after the balance sheet date	162	169
Total derivative financial instruments	273	267

DERIVATIVE FINANCIAL INSTRUMENTS BY CURRENCY

in CHF m	31.12.2017	31.12.2016
USD	265	260
EUR	—	1
JPY	8	6
Total derivative financial instruments	273	267

FINANCIAL INSTRUMENTS EFFECTIVE FOR HEDGE-ACCOUNTING PURPOSES

in CHF m	31.12.2017	31.12.2016
Interest rate swaps	5	5
Borrowings denominated in foreign currencies	-1 083	-1 027

In 2012, Clariant issued a bond in the amount of EUR 500 million (see note 17), which was designated as a hedge of a net investment in some of Clariant's European subsidiaries in that same year. In the course of 2017 the whole bond was de-designated. The unrealized foreign exchange rate loss resulting from the translation of the bond into Swiss francs as per the de-designation date amounted to CHF 3 million as per 31 December 2016 and remains frozen in the cumulative translation difference in shareholders' equity.

In 2015, Clariant issued four certificates of indebtedness amounting to EUR 300 million (see note 17). They were designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange rate gain resulting from the translation of the new certificates of indebtedness into Swiss francs amounted to CHF 29 million for 2017 (2016: CHF 2 million gain) and is recorded in the cumulative translation difference in shareholders' equity.

In 2016, Clariant issued seven more certificates of indebtedness amounting to EUR 395 million and two certificates of indebtedness amounting to USD 277 million (see note 17). These certificates were also designated as a hedge of a net investment in some of Clariant's European and US-American subsidiaries. The unrealized foreign exchange rate result calculated from the translation of the new certificates of indebtedness into Swiss francs amounted to a gain of CHF 38 million (2016: CHF 7 million gain) for the EUR positions and to a loss of CHF 12 million (2016: CHF 12 million loss) for the USD positions and is recorded in the cumulative translation difference in shareholders' equity.

Clariant is hedging the interest rate risk resulting from the certificates of indebtedness in the amount of USD 277 million issued at a variable interest rate. For this purpose interest rate swaps amounting to USD 166 million have been established in 2016. Their clean price amounted to a positive CHF 5 million for 2017 (2016: CHF 5 million). They are accounted for as a cash flow hedge and as a consequence the result was recorded in other comprehensive income.

30. Employee participation plans

Under the Group Senior Management – Long-Term Incentive Plan (GSM-LTIP) a certain percentage of the actual bonus is granted to the plan participants in the form of registered shares of Clariant Ltd (investment shares). These shares vest immediately upon grant, but are subject to a three-year blocking period. The plan participants receive an additional share free of cost (matching share) for each investment share held at the end of the blocking period.

These shares were granted for the first time in 2011, based on the performance achieved in the base year 2010. Similar plans were launched in all subsequent years. The number of shares not yet vested and thus disclosed are the matching shares already granted.

In April 2008, Clariant established a stock option plan for members of Management and the Board of Directors. Options granted under this plan entitle the holder to acquire registered shares of Clariant Ltd (one share per option) at a predetermined strike price. Clariant contracted a third-party bank to issue tradable options to the plan participants in accordance with the rules of the plan. The plan participants can sell the options back to this bank after they have vested. The bank in return has the right to claim a share from Clariant at the pre-determined strike price for each option that is sold to it by plan participants. The options become vested and are exercisable after two years and expire after five years. The last grant of the stock option plan to members of Management and the Board of Directors took place in April 2012.

The Restricted Plan for members of the Board of Directors replacing the Option Plan had its first grant date in early 2014.

For the first time in 2013, the Performance Share Unit (PSU) Plan was introduced for all senior managers to replace the former Tradable Option Plan. The term of Clariant's Performance Share Unit Plan is a three-year vesting period. The vesting is conditional upon achievement of the performance targets at the end of the vesting period. If the performance targets are achieved, each PSU will be converted into one Clariant share.

A new grant took place in September 2017. The review of the target achievements (vesting criteria) for this plan will be held in summer 2020 and vesting is scheduled to take place in September 2020.

The expense recorded in the income statement spreads the costs of each grant over the measurement period and the vesting period. 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.

During 2017, CHF 9 million (2016: CHF 9 million) were charged to the income statement for equity-settled share-based payments exclusively.

As of 31 December 2017, the total carrying value of liabilities arising from equity-settled share-based payments, entirely recognized in equity, is CHF 25 million (2016: CHF 25 million).

OPTIONS FOR MEMBERS OF MANAGEMENT AND EXECUTIVE COMMITTEE¹

	Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	Number 31.12.2017	Number 31.12.2016
	2012	2012	2014	2017	16.50	12.59	—	660 243
Total							—	660 243

¹ Past and current members.

As per 31 December 2017, no further options were outstanding. Per 31 December 2016, the weighted average remaining contractual life of the share options was 0.24 years.

SHARES FOR MEMBERS OF MANAGEMENT AND THE EXECUTIVE COMMITTEE

Base year	Granted	Vesting in		Share price at grant date	Number 31.12.2017	Number 31.12.2016
2013	2014	2017		17.24	—	221 607
2014	2014	2017		17.35	—	489 798
2014	2014	2017		17.35	—	2 741
2014	2015	2018		19.71	171 123	186 848
2015	2015	2018		19.70	5 000	5 000
2015	2015	2018		17.39	13 813	13 813
2015	2015	2018		19.10	409 521	441 847
2015	2016	2019		16.98	227 725	250 325
2016	2016	2019		16.84	533 997	556 798
2016	2016	2019		16.87	5 000	5 000
2016	2017	2020		18.67	230 379	—
2017	2017	2020		22.11	432 613	—
2017	2017	2020		18.74	12 831	—
2017	2017	2020		19.15	11 799	—
Total					2 053 801	2 173 777

	Weighted average exercise price	Options 2017	Shares 2017	Weighted average exercise price	Options 2016	Shares 2016
Shares/options outstanding at 1 January	16.50	660 243	2 173 777	16.95	1 233 671	2 685 903
Granted		—	996 690		—	1 122 258
Exercised/distributed*	18.67	-646 843	-516 649	17.23	-303 414	-887 577
Cancelled/forfeited		-13 400	-600 017		-270 014	-746 807
Outstanding at 31 December		—	2 053 801	16.50	660 243	2 173 777
Exercisable at 31 December				16.50	660 243	
Fair value of shares/options outstanding in CHF			55 966 064		921 038	38 193 253

* Options exercised include 355 800 options (2016: 215 648) pertaining to the 2011 and 2012 Option Plans, which were sold by the plan participants in the market.

The fair value of shares granted during 2017 is CHF 20 million (2016: CHF 19 million) calculated based on market value of shares at grant date.

No options were granted in 2017 and 2016.

31. Personnel expenses

in CHF m	2017	2016
Wages and salaries	-1 116	-1 062
Social welfare costs	-264	-246
Shares and options granted to directors and employees	-9	-9
Pension costs - defined contribution plans	-26	-24
Pension costs - defined benefit plans	-44	-41
Other post-employment benefits	-1	-1
Total personnel expenses	-1 460	-1 383

32. Related party transactions

Clariant maintains business relationships with related parties. One group consists of the associates and joint ventures, of which 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, the rendering of services to the Stahl group following the disposal of the Leather Business and the rendering of services to Global Amines.

The second group of related parties is key management comprising the Board of Directors and the Executive Committee. The information required by the ordinance against excessive compensation in stock exchange-listed companies regarding the emoluments for the members of the Board of Directors and the Executive Committee is disclosed in the Compensation 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 United Kingdom, and the United States. These services comprise mainly administrative and trustee services. The total costs in 2017 of these services is CHF 1 million (2016: CHF 1 million), of which approximately half is charged back to the pension plans. The number of full-time employees corresponding to these is approximately four (2016: approximately four).

TRANSACTIONS WITH RELATED PARTIES		
in CHF m	2017	2016
Income from the sale of goods to related parties	47	35
<i>thereof to joint ventures</i>	1	6
<i>thereof to associates</i>	46	29
Income from the rendering of services to related parties	40	48
<i>thereof to associates</i>	40	48
Expenses from the purchase of goods from related parties	-29	-56
<i>thereof from joint ventures</i>	-2	-15
<i>thereof from associates</i>	-27	-41
Expenses from services rendered by related parties	-210	-208
<i>thereof by associates</i>	-210	-208
Expense from the purchase of property, plant and equipment from related parties	-5	-3
<i>thereof from associates</i>	-5	-3
Expense from lease contracts with related parties	-7	-7
<i>thereof with associates</i>	-7	-7

PAYABLES AND RECEIVABLES WITH RELATED PARTIES		
in CHF m	31.12.2017	31.12.2016
Receivables from related parties	18	9
<i>thereof from joint ventures</i>	—	2
<i>thereof from associates</i>	18	7
Allowance for amounts overdue from joint ventures	-2	-2
Payables to related parties	61	57
<i>thereof to joint ventures</i>	—	5
<i>thereof to associates</i>	61	52
Loans to related parties	17	55
<i>thereof to associates</i>	17	55
Guarantees to third parties on behalf of related parties ¹	74	77
<i>thereof on behalf of joint ventures</i>	74	77

¹ The guarantee extended on behalf of a related party concerns a bank loan to a US joint venture.

TRANSACTIONS WITH KEY MANAGEMENT		
in CHF m	2017	2016
Salaries and other short-term benefits	9	11
Post-employment benefits	3	3
Share-based payments	3	3
Total	15	17

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

33. Commitments and contingencies

Leasing commitments. The Group leases 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 Germany and in the United States. 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.

Expected expenses for operating leases breakdown by maturities as follows:

in CHF m	31.12.2017	31.12.2016
2017	—	51
2018	53	37
2019	36	24
2020	21	15
2021	16	12
2022	11	—
After 2022 (2016: after 2021)	34	25
Total	171	164

Expenses for operating leases were CHF 77 million in 2017 (2016: CHF 74 million).

Guarantees. No guarantees on behalf of third parties were issued in 2017 and 2016.

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.

Clariant is engaged in contracts to buy a minimum quantity of ethylene for the next years (between four to ten years depending on the contract) and in two contracts to buy a minimum quantity of propylenoxide in the years 2016 – 2018. This implies a total purchase commitment of about CHF 1.12 billion (2016: CHF 1.26 billion).

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 the aftermath of the procedure to acquire subsequent to the acquisition of Süd-Chemie, the 1.36 % of shares still in possession of third parties (squeeze-out) at the time, several minority shareholders initiated appraisal proceedings to reassess the adequacy of the cash compensation paid to the minority shareholders. Clariant opines that the cash compensation agreed is fair and complies with all legal and economic requirements. The court of first instance has decided on an increase of the cash compensation from EUR 125.26 by EUR 7.04 to EUR 132.30 EUR per share. Clariant and several plaintiffs have contested this court decision. The appraisal proceedings is currently pending in the second instance. At this time it cannot be determined to what extent these proceedings will lead to additional liabilities.

In 2017, the European Commission (Antitrust) initiated an investigation on Clariant and some of its competitors active in the ethylene purchasing sector in some member states. The investigation is at an early stage; should antitrust violations be brought up against Clariant by the European Commission, it can impose significant fines that may affect the Group's result and cash flow with an amount that may be material.

Given the ongoing nature of the investigation and the uncertainties associated with them, management has concluded that the amount of such fine cannot be determined as of 31 December 2017 as a reliable estimate is dependent on numerous factors which have not been defined as of the closing date. This assessment is supported by external advisors.

In connection with the dismantlement of a wastewater treatment plant in France Clariant is faced with a claim by the Swiss-based group Novartis in the amount of CHF 22 million. Clariant has the view that this claim is unfounded. The case is currently pending at court.

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, apart from those cases where a provision has already been recognized, there are no such matters pending which would likely 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 costs 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.

34. Exchange rates of principal currencies

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

	31.12.2017	31.12.2016
1 USD	0.98	1.02
1 EUR	1.17	1.07
1 BRL	0.29	0.31
1 CNY	0.15	0.15
100 INR	1.53	1.50
100 JPY	0.87	0.87

Sales-weighted average exchange rates used to translate the consolidated income statements and consolidated statements of cash flows:

	2017	2016
1 USD	0.99	0.99
1 EUR	1.11	1.09
1 BRL	0.31	0.28
1 CNY	0.15	0.15
100 INR	1.52	1.47
100 JPY	0.88	0.91

35. Important subsidiaries

Country	Company name	Currency	Share-/paid-in capital (in thousands)	Participation ¹ in %	Holding/ Finance/ Service	Sales	Production	Research
Argentina	Clariant (Argentina) SA, Lomas de Zamora	ARS	54 605	100.0		■	■	
	Clariant Plastics & Coatings (Argentina), Lomas de Zamora	ARS	1 090	100.0		■	■	
Australia	Clariant (Australia) Pty Ltd, Notting Hill	AUD	1 902	100.0	■	■	■	
	Clariant Plastics & Coatings Australia Pty Ltd, Notting Hill	AUD	2 500	100.0	■	■		
	Chemical & Mining Services Pty Ltd	AUD	1	100.0		■		
Austria	Clariant Plastics & Coatings (Österreich) GmbH, Vienna	EUR	1 000	100.0		■		
Belgium	Clariant Plastics & Coatings Belgium SA, Louvain-La-Neuve	EUR	9 629	100.0		■	■	
Brazil	Clariant S.A., São Paulo	BRL	184 863	100.0	■	■	■	
	Clariant Administração de Bens Ltda., São Paulo	BRL	7 696	100.0	■	■	■	
	Companhia Brasileira de Bentonita Ltda, São Paulo	BRL	17 470	100.0		■	■	
	Consórcio CCPN, Rio de Janeiro	BRL	26 113	100.0		■		
	Clariant Plastics & Coatings Brasil Indústria Química Ltda., São Paulo	BRL	100 850	100.0		■	■	■
British Virgin Islands	Clariant Clearwater Technologies Ltd, Tortola	USD	6	100.0	■			
Canada	Clariant (Canada) Inc., Toronto	CAD	10 415	100.0		■	■	
	Clariant Plastics & Coatings Canada Inc., Toronto	CAD	1	100.0		■	■	
Chile	Clariant (Chile) Ltda., Maipú-Santiago de Chile	CLP	15	100.0		■	■	
	Clariant Plastics & Coatings (Chile) Ltda. Maipú-Santiago de Chile	CLP	3 842	100.0		■	■	
China	Clariant (China) Ltd., Hong Kong	HKD	93 250	100.0	■			
	Clariant Bohai Pigments Preparations (Tianjin) Ltd., Tianjin	CNY	49 176	90.0		■	■	■
	Clariant Catalysts (Nanjing) Co., Ltd., Nanjing	CNY	321 822	100.0		■		
	Clariant Chemicals (China) Ltd., Shanghai	CNY	210 014	100.0		■	■	■
	Clariant Chemicals (Guangzhou) Ltd., Guangzhou	CNY	70 345	100.0		■	■	
	Clariant Chemicals (Huizhou) Ltd., Daya Bay, Huizhou	CNY	183 039	100.0		■	■	
	Clariant China Holding Limited, Hong Kong	HKD	67 251	100.0	■			
	Clariant Huajin Catalysts (Panjin) Ltd., Panjin City	CNY	69 511	60.0		■	■	
	Clariant Masterbatches (Beijing) Ltd., Beijing	CNY	55 059	100.0			■	
	Clariant Masterbatches (Shanghai) Ltd., Shanghai	CNY	26 087	100.0		■	■	
	Clariant Redhill Bentonite (Liaoning) Ltd., Jianping	CNY	28 525	100.0		■	■	
	Clariant Specialty Chemicals (Zhenjiang) Co., Ltd., Zhenjiang	CNY	149 503	100.0		■	■	
	Clariant Bentonite (Jiangsu) Co., Ltd., Zhenjiang	CNY	79 058	100.0		■	■	
	Jiangsu Süd-Chemie Performance Packaging Material Co., Ltd., Changshu	CNY	44 266	100.0		■	■	
	Clariant Coatings (Shanghai) Ltd., Shanghai	CNY	104 260	100.0		■	■	
	Clariant Chemicals Technology (Shanghai) Ltd., Shanghai	CNY	13 810	100.0	■			
	Colombia	Clariant Colombia S.A., Cota (Cundinamarca)	COP	2 265	100.0		■	■
Clariant Plastics & Coatings (Colombia), S.A.S. Cota (Cundinamarca)		COP	21 506	100.0		■	■	
Finland	Clariant Masterbatches (Finland) Oy, Vantaa	EUR	169	100.0		■		
France	Clariant Plastics & Coatings (France), Choisy-le-Roi	EUR	1 561	100.0		■	■	
	Clariant Production (France), Choisy-le-Roi	EUR	6 273	100.0	■	■	■	■
	Clariant Services (France), Choisy-le-Roi	EUR	21 200	100.0	■			
	CRM International S.A.S., Puget-sur-Argens	EUR	650	100.0		■	■	
	Clariant Healthcare Packaging, Choisy-le-Roi	EUR	5 570	100.0		■	■	■
Germany	Clariant Advanced Materials GmbH, Frankfurt a.M.	EUR	102	100.0		■	■	■
	Clariant Plastics & Coatings (Deutschland) GmbH, Frankfurt a.M.	EUR	149	100.0	■	■	■	■
	Clariant Produkte (Deutschland) GmbH, Frankfurt a.M.	EUR	9 348	100.0	■	■	■	■
	Clariant SE, Frankfurt a.M.	EUR	916	100.0	■	■	■	
	Clariant Verwaltungsgesellschaft mbH, Frankfurt a.M.	EUR	2 560	100.0	■			
	Süd-Chemie IP GmbH & Co. KG, Munich	EUR	803	100.0	■			

Country	Company name	Currency	Share-/paid in capital (in thousands)	Participa- tion ¹ in %	Holding/ Finance/ Service	Sales	Production	Research
Great Britain	Clariant Distribution UK Limited, Yeadon, Leeds	GBP	500	100.0	■			
	Clariant Plastics & Coatings (UK) Ltd, Yeadon, Leeds	GBP	500	100.0		■		
	Clariant Oil Services UK Ltd, Yeadon, Leeds	GBP	400	100.0		■	■	■
	Clariant Production UK Ltd, Yeadon, Leeds	GBP	500	100.0	■	■	■	
	Clariant Services UK Ltd, Yeadon, Leeds	GBP	500	100.0	■			
Greece	Süd-Chemie Hellas Monoprosopi EPE, Adamas, Milos	EUR	548	100.0		■	■	
Guatemala	Clariant (Guatemala) S.A., Guatemala City	GTQ	14 000	100.0		■		
	Clariant Specialties (Guatemala), S.A., Guatemala City	GTQ	100	100.0		■		
India	Clariant Chemicals (India) Ltd, Thane	INR	230 818	51.0		■	■	
	Clariant India Private Limited, New Delhi	INR	1 700	100.0	■	■	■	
	Süd-Chemie India Pvt. Ltd., Binanipuram	INR	9 623	50.0		■	■	■
	Clariant Medical Specialties India Limited, Mumbai	INR	282 697	100.0		■	■	
Indonesia	PT. Clariant Indonesia, Tangerang	IDR	59 047	100.0	■	■	■	
	PT. Clariant Kujang Süd-Chemie Catalysts, Cikampek	USD	3 447	53.9		■	■	
	PT. Clariant Plastics & Coatings Indonesia, Cibodas	USD	96 220	100.0		■	■	
	PT. Clariant Plastics & Coatings, Cibodas	USD	10 282	100.0		■		
	PT. Clariant Specialties Indonesia, Tangerang	IDR	4 803	100.0		■		
	PT. Clariant Adsorbents Indonesia, Cileungsi, Bogor	IDR	12 375	100.0		■	■	
Ireland	Clariant Plastics & Coatings (Ireland) Limited, Naas	EUR	411	100.0		■	■	
Italy	Clariant (Italia) S.p.A., Milano	EUR	36 000	100.0	■			
	Clariant Plastics & Coatings (Italia) S.p.A., Milano	EUR	3 000	100.0		■	■	■
	Clariant Prodotti (Italia) S.p.A., Milano	EUR	1 000	100.0		■	■	■
	Società Sarda di Bentonite S.r.l., Santa Giusta	EUR	2 050	100.0		■		
	SQE Olivene S.r.l., Milano	EUR	10	100.0		■	■	
Japan	Clariant (Japan) K.K., Tokyo	JPY	450	100.0		■	■	■
	Clariant Catalysts (Japan) K.K., Tokyo	JPY	544	61.5	■	■	■	■
	Clariant Plastics & Coatings (Japan) K.K., Tokyo	JPY	250	100.0		■	■	■
Korea	Clariant Plastics & Coatings (Korea) Ltd., Gangnam, Seoul	KRW	707	100.0		■	■	
	Clariant (Korea) Ltd., Pohang, Gyeongbuk	KRW	6 361	100.0		■	■	
Luxemburg	Clariant Finance (Luxembourg) S.A., Luxembourg	EUR	82 030	100.0	■			
Malaysia	Clariant (Malaysia) Sdn Bhd, Kuala Lumpur	MYR	12 347	100.0		■		
	Clariant Masterbatches (Malaysia) Sdn Bhd, Petaling Jaya	MYR	2 000	60.0		■	■	
	Clariant Oil Services (Malaysia) Sdn Bhd, Selangor	MYR	137	48.9		■		
	Clariant Specialty Chemical (M) Sdn Bhd, Shah Alam	MYR	3 300	100.0	■	■		
Mexico	Clariant (Mexico) S.A. de C.V., Ecatepec de Morelos	MXN	22 189	100.0	■	■	■	■
	Clariant Productos Químicos, S.A. de C.V., Ecatepec de Morelos	MXN	2 475	100.0	■			
	Clariant Plastics & Coatings México, S.A. de C.V., Ecatepec de Morelos	MXN	916	100.0	■	■	■	■
	Clariant Servicios Integrales México, S.A. de C.V., Ecatepec de Morelos	MXN	3	100.0	■			
Morocco	Clariant (Maroc) S.A., Casablanca	MAD	107 669	100.0		■	■	
Netherlands	Clariant Participations (The Netherlands) B.V., Maastricht	EUR	20	100.0		■		
New Zealand	Clariant (New Zealand) Limited, Auckland	NZD	1 000	100.0		■	■	
Norway	Clariant Oil Services Scandinavia AS, Bergen	NOK	4 725	100.0		■		
Pakistan	Clariant Chemical Pakistan (Pvt) Ltd, Karachi-Korangi	PKR	1 130 226	100.0		■	■	
Peru	Clariant (Perú) S.A., Lima	PEN	20 454	100.0	■	■	■	
	Clariant Plastics & Coatings (Perú) S.A.C., Lima	PEN	2 010	100.0		■		
Poland	Clariant Plastics & Coatings (Polska) Spolka z o.o., Konstantynów Łódzki	PLN	29 000	100.0		■	■	
	Clariant Poland Spolka z o.o., Konstantynów Łódzki	PLN	3 000	100.0		■	■	
	Clariant Services (Poland) SP. z o.o., Łódź	PLN	10 000	100.0	■			
Qatar	Clariant Qatar W.L.L., Mesaieed	QAR	60 000	65.0		■	■	
Romania	Clariant Products Ro Srl, Bucarest	RON	23 600	100.0	■	■		
Russia	Clariant (RUS) LLC, Moscow	RUB	16 200	100.0		■		

Country	Company name	Currency	Share-/paid in capital (in thousands)	Participation ¹ in %	Holding/ Finance/ Service	Sales	Production	Research
Saudi Arabia	Clariant Masterbatches (Saudi Arabia) Ltd, Riyadh	SAR	50 000	53.0		■	■	
Singapore	Clariant (Singapore) Pte. Ltd., Singapore	SGD	3 500	100.0	■	■	■	
	Clariant South East Asia Pte. Ltd., Singapore	SGD	1 560	100.0	■	■		
South Africa	Clariant Sasol Catalysts Ltd., Chloorkop, Gauteng	ZAR	1 417	80.0		■		
	Clariant Southern Africa (Pty) Ltd., Chloorkop, Gauteng	ZAR	6	100.0	■	■	■	
	Clariant Plastics & Coatings Southern Africa (Pty) Ltd., Chloorkop, Gauteng	ZAR	70 000	100.0		■	■	
Spain	Clariant Ibérica Producción S.A., El Prat de Llobregat	EUR	6 023	100.0	■	■	■	■
	Clariant Ibérica Servicios S.L., El Prat de Llobregat	EUR	358	100.0	■			
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	EUR	2 525	100.0		■	■	■
Sweden	Clariant Plastics & Coatings Nordic AB, Malmö	SEK	3 200	100.0		■	■	
	Clariant Production Sweden AB, Mölndal	SEK	500	100.0		■	■	
Switzerland	Clariant Consulting AG, MuttENZ	CHF	200	100.0	■			
	Clariant Chemical Consulting AG, MuttENZ	CHF	100	100.0	■			
	Clariant International AG, MuttENZ	EUR	92 181	100.0	■	■	■	■
	Clariant Oil Services AG, MuttENZ	CHF	300	100.0	■			
	Clariant Reinsurance AG, MuttENZ	CHF	3 000	100.0	■			
	EBITO Chemiebetrieigungen AG, MuttENZ	CHF	202	100.0	■			
	Infrapark Baselland AG, MuttENZ	CHF	5 000	100.0	■		■	
	Clariant Produkte (Schweiz) AG, MuttENZ	CHF	5 000	100.0	■	■	■	
	Clariant Additives AG, MuttENZ	CHF	5 000	100.0	■	■	■	
	Clariant Plastics & Coatings AG, MuttENZ	EUR	18 961	100.0	■	■	■	■
Taiwan	Clariant Chemicals (Taiwan) Co., Ltd., Taipei	TWD	23 888	100.0		■	■	
	Clariant Specialty Chemicals (Taiwan) Co., Ltd., Taipei	TWD	1 000	100.0		■	■	
Thailand	Clariant (Thailand) Ltd., Bangkok	THB	250 000	100.0		■		
	Clariant Masterbatches (Thailand) Ltd., Chonburi	THB	325 000	100.0		■	■	■
Turkey	Clariant (Türkiye) A.S., Gebze	TRY	17 538	100.0		■	■	
	Clariant (Türkiye) Boya Ve Kimyevi Sanayi Ve Ticaret A.S., Gebze	TRY	8 562	100.0		■	■	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	AED	1 000	100.0		■		
	Clariant Plastics & Coatings (UAE) FZE, Jebel Ali, Dubai	AED	45 000	100.0	■	■		
Ukraine	Clariant Ukraine LLC, Severodonetsk	UAH	28 688	100.0		■	■	
USA	Clariant Corporation, Charlotte, NC	USD	749 500	100.0	■	■	■	■
	Clariant Plastics & Coating USA Inc., Charlotte, NC	USD	50	100.0		■	■	■
	Kel-Tech, Inc., Midland, Texas	USD	273 192	100.0		■	■	
Venezuela	Clariant Venezuela, S.A., Maracay	VEF	67 085	100.0		■	■	
	Clariant Plastics & Coatings Venezuela, S.A., Maracay	VEF	95 100	100.0		■	■	

¹ The participation in % reflects the capital- and voting rights in %.

36. Events subsequent to the balance sheet date

On 25 January 2018, the Saudi-Arabia based chemical group SABIC International Holdings B.V., Sittard, The Netherlands, controlled by the Public Investment Fund of Saudi Arabia (PIF) Riyadh, Saudi Arabia, announced the acquisition of a 24.99 % stake in Clariant. This acquisition of shares, which were previously held by the

White Tale Holdings LP, Cayman Islands, Corvex Holdings LLC, Cayman Islands, and 40 North Latitude Master Fund Ltd., New York, makes SABIC the largest Clariant shareholder.

Report of the statutory auditor to the General Meeting of Clariant Ltd. Muttenz

Report on the audit of the consolidated financial statements Opinion

We have audited the consolidated financial statements of Clariant Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of

cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 1 to 66) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

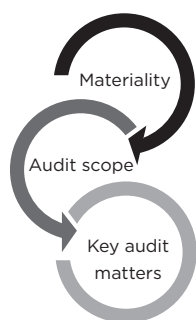
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OUR AUDIT APPROACH

OVERVIEW



Overall Group materiality: CHF 30 million

We concluded full scope audit work at 18 reporting units in nine countries. Our audit scope addressed over 65% of the Group’s revenue. In addition, specified procedures were performed on a further two reporting units in one country representing a further 2% of the Group’s revenue.

We performed analytical procedures on the remaining components.

As key audit matters the following areas of focus have been identified:

- Management’s assumptions and estimates used in the impairment test for goodwill
- Cut-off for revenue recognition
- Investigation by the European Commission in the ethylene purchasing market

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

From 142 reporting units, we identified 18 reporting units (components) to be the largest contributors to the Group’s financial statements (amounting to 65% of the Group’s revenue, addressing all geographical areas of the Group’s business). These reporting units were subject to a full scope audit by local PwC network firms.

In addition to in-person meetings, we held regular calls during all audit phases to discuss material audit topics with the component auditors of the most significant reporting units. Further audit procedures were performed by the central group audit team over certain group functions (including taxation, treasury, ongoing investigations and litigation and information technology) and Group consolidation. 2% of the Group’s revenue were addressed by specified audit procedures. In addition, two PwC network firms performed specific audit procedures related to sales and procurement and the financial closing cycle at the Group’s shared service centers on behalf of PwC Switzerland and assisting other PwC network firms.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 30 million
How we determined it	2.5% of the Group's EBITDA, weighted at 75%, and 1% of the Group's total assets weighted at 25%
Rationale for the materiality benchmark applied	We chose EBITDA as the basis benchmark because management assesses its profitability mainly based on this measure of profit and we also took the Group's assets into consideration since the chemical industry is highly capital intensive operating at a lower net profit margin compared with other industries.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.5 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MANAGEMENT'S ASSUMPTIONS AND ESTIMATES USED IN THE IMPAIRMENT TEST FOR GOODWILL

Key audit matter	How our audit addressed the key audit matter
We consider the valuation of goodwill to be a key audit matter because of the significant scope for judgement with respect to assumptions concerning the future results of the businesses and the discount rates applied to future cash flow forecasts. Specifically, we focused on goodwill relating to the Functional Minerals business unit, which amounts to CHF 150 million, and the Catalysts business unit, which amounts to CHF 704 million, as the risk of impairment is higher for these units compared with other business units.	We evaluated and challenged management's assumptions as described on page 17 in the notes to the consolidated financial statements. Management followed a clearly documented process for forecasting future cash flows, which was subject to timely oversight and challenges by the Board of Directors and which was consistent with the business plans as approved by the Board of Directors. We compared the actual results of the year under review with the figures used to make the forecasts in the prior year in order to assess with hindsight whether any of the assumptions underlying the forecasts might have been too optimistic. In some cases, actual performance was found to be lower than forecast. Management analysed the underlying drivers and considered actual revenue growth rates and operating margins against those in the business plans prepared in the year under review and captured those into the new business plans. We discussed with the business unit leaders management's assumptions regarding revenue, long-term growth rates and profit margins. We involved PwC's own valuation specialists to assess the model and the weighted average cost of capital (WACC) used. The WACC was assessed using comparable industry peers and data available from external sources. In addition, we assessed for reasonableness the expectations of movements in working capital and of investments in property, plant and equipment.
Please refer to page 17 (Critical accounting estimates and judgments, 4.1 Estimated impairment of goodwill and property, plant and equipment), and page 22 (Goodwill allocation) in the notes.	We found the assumptions to be balanced and reasonable. We reperformed thorough sensitivity analyses on the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired. We discussed the results of our audit work as well as the headroom of the sensitivity analyses with management, the Audit Committee and the Board of Directors. On the basis of the procedures performed and the evidence obtained, we identified no significant issues with respect to the assumptions used in the impairment test for goodwill.

CUT OFF FOR REVENUE RECOGNITION

Key audit matter	How our audit addressed the key audit matter
There is a risk that revenue is not recognized in accordance with the requirements of IFRS, mainly with regard to the timing of revenue recognition, which depends on the transfer of risks and rewards. Invoices are usually raised by the systems when the goods are shipped which may not align with the detailed contractual terms for the transfer of risks and hence manual adjustments may be required.	We identified transactions occurring close to the balance sheet date of 31 December 2017 and tested the appropriate timing of revenue recognition by examining the third party documentation and the contractual delivery terms. On the basis of the procedures performed and the evidence obtained, we identified no significant issues with respect to revenue cut-off.
We consider this to be a key audit matter because a number of large transactions occur close to year-end and the potential need for manual adjustments.	

INVESTIGATION BY THE EUROPEAN COMMISSION IN THE ETHYLENE PURCHASING MARKET**Key audit matter**

In July 2017, Clariant announced that it was part of an investigation of the European Commission into alleged breaches of the competition law in the ethylene purchasing market. Clariant is cooperating fully with the authorities.

The eventual outcome of the investigation is uncertain both in relation to the timing of the process and the magnitude of fines, if any, which might be imposed.

The investigation is in a very early stage and it has not been possible for the Group to make a reliable estimate of the amount of any liability that could arise from any such future proceedings and no provision has been recorded by management. Accordingly, unexpected adverse outcomes could significantly impact the Group's reported profit, cash flow and balance sheet position.

Please refer to pages 62 to 63 (Commitments and contingencies) in the notes.

How our audit addressed the key audit matter

We discussed the status of the ongoing investigation with in-house and external legal counsel and read relevant correspondence and minutes of the Board of Directors' and management meetings. We obtained independent letters from external legal counsel to confirm our understanding of the status and their assessment of the investigation. We also used internal PwC legal and forensic specialists to assist us in evaluating the status of the investigation, the appropriateness of the assumptions taken and in assessing management's and the Board of Directors position. We discussed this assessment with management, the Audit Committee and the Board of Directors and have obtained written representations from the Group in relation to the case.

As set out in the notes to the consolidated financial statements, the outcome of such investigation is dependent on the outcome of future developments and therefore the exposure to the Group, as assessed by management and the Board of Directors is subject to inherent uncertainty. Based on the procedures performed and the information obtained, we are satisfied that the judgements and assessments made by management and the Board of Directors were appropriate.

Other information in the integrated report

The Board of Directors is responsible for the other information in the integrated report. The other information comprises all information included in the integrated report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Clariant Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the integrated report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the integrated report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in

extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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



Rolf Johner
Audit expert
Auditor in charge

Ruth Sigel
Audit expert

Basel, 12 February 2018

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Review of trends

FIVE-YEAR GROUP OVERVIEW 2013-2017

		2017	2016	2015	2014	2013
Segment sales	CHF m	6 429	5 883	5 827	6 142	6 113
Change relative to preceding year						
in Swiss francs	%	9	1	-5	1	1
in local currency	%	9	2	3	5	4
Group sales¹	CHF m	6 377	5 847	5 807	6 116	6 076
Change relative to preceding year						
in Swiss francs	%	9	1	-5	1	1
in local currency	%	9	2	3	5	4
Adjusted operating income	CHF m	673	622	596	585	574
Change relative to preceding year	%	8	4	2	2	5
as a % of sales		10.6	10.6	10.3	9.6	9.4
Operating income	CHF m	496	512	496	525	470
Change relative to preceding year	%	-3	3	-6	12	14
as a % of sales		7.8	8.8	8.5	8.6	7.7
EBITDA	CHF m	813	785	767	923	797
Change relative to preceding year	%	4	2	-17	16	16
as a % of sales		12.7	13.4	13.2	15.1	13.1
Adjusted EBITDA	CHF m	974	887	853	867	858
Change relative to preceding year	%	10	4	-2	1	5
as a % of sales		15.3	15.2	14.7	14.2	14.1
Net income	CHF m	302	263	239	217	5
Change relative to preceding year	%	15	10	10	—	-98
as a % of sales		4.7	4.5	4.1	3.5	0.1
Investment in property, plant and equipment	CHF m	248	297	374	310	292
Change relative to preceding year	%	-16	-21	21	6	-6
as a % of sales		4	5	6	5	5
Personnel costs	CHF m	1 460	1 383	1 345	1 435	1 407
Change relative to preceding year	%	6	3	-6	2	-2
as a % of sales		23	24	23	23	23
Employees at year-end	number	18 135	17 442	17 213	17 003	18 099
Change relative to preceding year	%	4	1	1	-6	-15

¹ Including trading.

Financial statements of Clariant Ltd, Muttenz

FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ

Clariant Ltd balance sheets at 31 December 2017 and 2016

	Notes	31.12.2017 in CHF	in %	31.12.2016 in CHF	in %
Assets					
Current assets					
Cash and cash equivalents	3	336 563 078		541 317 980	
Short-term deposits	3	—		406 293 900	
Other short-term receivables	4	42 517 548		54 209 246	
Accrued income and prepaid expenses		2 108 929		7 573 966	
Total current assets		381 189 555	6.8	1 009 395 092	17.7
Non-current assets					
Loans to Group companies		3 393 215 108		2 856 598 527	
Other financial assets		763 089		2 571 434	
Shareholdings in Group companies	5	1 813 746 020		1 830 936 683	
Intangible assets		14 822 458		16 754 107	
Total non-current assets		5 222 546 675	93.2	4 706 860 751	82.3
Total assets		5 603 736 230	100.0	5 716 255 843	100.0
Liabilities and equity					
Liabilities					
Current liabilities					
Other current non-interest-bearing liabilities	6	74 254 368		72 012 820	
Other current interest-bearing liabilities	7	251 960 656		237 477 899	
Current provision		106 293 620		128 487 452	
Accrued expenses		4 580 963		3 567 719	
Total current liabilities		437 089 607	7.8	441 545 890	7.7
Non-current liabilities					
Non-current interest-bearing liabilities to third parties	12	1 713 692 662		1 904 429 071	
Non-current interest-bearing liabilities to Group companies	12	319 112		7 271 714	
Total non-current interest-bearing liabilities	12	1 714 011 774	30.6	1 911 700 785	33.4
Total liabilities		2 151 101 381		2 353 246 675	
Equity					
Share capital					
Reserves from capital contribution ¹	9,11	2 440 230 643		2 588 117 282	
Reserves from retained earnings ²	9,11	-1 264 297 991		-1 264 297 991	
Total statutory capital reserves	11	1 175 932 652		1 323 819 291	
Voluntary retained earnings	11	924 527 225		779 629 894	
Total reserves	9,11	2 100 459 877		2 103 449 185	
Profit for the financial year		172 132 961		144 897 331	
Treasury shares	10,11	-48 133 025		-113 512 384	
Total equity		3 452 634 849	61.6	3 363 009 168	58.9
Total equity and liabilities		5 603 736 230	100.0	5 716 255 843	100.0

¹ In 2012, the Swiss Federal Tax Administration confirmed qualifying capital contribution reserves of approximately CHF 1.7 billion (as per 31 December 2017 due to distributions still amounting of approximately CHF 1.2 billion). For further information see also note 9 to the financial statements of Clariant Ltd.

² This amount corresponds to capital contribution reserves formerly offset with losses. For further information see also note 9 to the financial statements of Clariant Ltd.

CLARIANT LTD INCOME STATEMENTS

for the years 2017 and 2016

	Notes	2017 in CHF	2016 in CHF
Income			
Income from shareholdings in Group companies		126 203 482	202 414 298
Income from interest on loans to Group companies		66 079 573	69 073 416
Other financial income		31 753 971	6 302 946
Exchange rate gains realized		312 823 775	186 914 543
Reversal of devaluations on shareholdings and other income related to Group Companies	5	108 600 000	179 500 000
Other income		12 767 386	12 006 741
Total income		658 228 187	656 211 944
Expenses			
Financial expenses		323 396 880	250 869 581
Administrative expenses		56 485 096	61 630 732
Devaluations of shareholdings and other expenses related to Group companies	5	101 600 000	193 300 000
Other expenses		3 305 026	4 600 974
Taxes		1 308 224	913 326
Total expenses		486 095 226	511 314 613
Profit for the financial year		172 132 961	144 897 331

Notes to the financial statements of Clariant Ltd

1. Accounting policies

Introduction. The statutory financial statements of Clariant Ltd comply with the regulations on financial accounting of the Swiss Code of Obligations.

Revenue recognition. 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 company. Dividends are recognized when the right to receive payment is established.

Exchange rate differences. Balance sheet items denominated in foreign currencies are converted at year-end exchange rates. Realized exchange gains and losses as well as unrealized exchange losses are recorded in the income statement.

Intangible assets. Patents are capitalized at cost and amortized on a straight-line basis to the income statement over their estimated useful lives with a maximum of 20 years.

Capital increase costs are directly charged to the income statement.

The Board of Directors approved the stand-alone financial statements of Clariant Ltd for issue on 12 February 2018. It will be subject to approval by the Annual General Meeting of Shareholders scheduled for 19 March 2018.

2. Basis of preparation

The statutory financial statements of Clariant Ltd have been prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations).

Clariant Ltd has no employees, except the members of the Board of Directors of the Clariant Group.

3. Cash and cash equivalents and short-term deposits

Cash and cash equivalents amount to CHF 336 563 078 at the end of 2017 compared with CHF 541 317 980 at the end of 2016 and comprise cash in hand denominated mainly in euro and to a lesser extent in Swiss francs and British pounds.

Short-term deposits amount to nil at the end of 2017 compared to CHF 406 293 900 at the end of 2016 and include short-term deposits with an original maturity between 90 and 365 days.

4. Other short-term receivables

Other short-term receivables amount to CHF 42 517 548 at the end of 2017 compared to CHF 54 209 246 at the end of 2016. They comprise third-party receivables of CHF 390 432 (compared to CHF 10 574 980 at the end of 2016) and intragroup receivables for CHF 42 127 116 (compared with CHF 43 634 266 at the end of 2016).

5. Shareholdings in Group companies

Shareholdings in Group companies are reviewed on a yearly basis to assess their cash generating capabilities by applying either a mixed calculation method based on the equity value and the net result or, alternatively, the discounted cash flow model. In that review, the investments are classified and grouped in terms of sales and Business Areas.

The following shareholdings in group companies were valued using the discounted cash flow method: Clariant S.A. (Brazil) and Clariant Finance (Luxembourg) S.A.

At the end of 2017, shareholdings in Group companies amount to CHF 1 813 746 020 compared to CHF 1 830 936 683 at the end of 2016. After this review, the following was recorded in the income statement: A reversal of devaluation of CHF 108 600 000 (2016: CHF 179 500 000) in »Reversal of devaluations on shareholdings and other income related to Group Companies« and a devaluation of CHF 101 600 000 (2016: CHF 193 300 000) in »Devaluations of shareholdings and other expenses related to Group Companies«.

In the year 2017, CHF 58 million of hidden reserves were reversed (2016: nil).

The table below shows the shareholdings directly held by Clariant Ltd.

Country	Company name		Capital interest (%)		Voting rights (%)	
			2017	2017	2016	2016
Brazil	Clariant S.A.	São Paulo	46.32%	46.32%	46.32%	46.32%
Canada	Clariant (Canada) Inc.	Toronto	100.00%	100.00%	100.00%	100.00%
China	Clariant (China) Ltd.	Hong Kong	100.00%	100.00%	100.00%	100.00%
Colombia	Clariant (Colombia) S.A.	Cota (Cundinamarca)	5.13%	5.13%	5.13%	5.13%
Ecuador	Clariant (Ecuador) S.A.	Quito	0.03%	0.03%	0.03%	0.03%
France	Clariant Services (France)	Choisy-le-Roi	43.00%	43.00%	43.00%	43.00%
Germany	Clariant Verwaltungsgesellschaft mbH	Frankfurt a.M.	100.00%	100.00%	100.00%	100.00%
Great Britain	Clariant Services UK Ltd	Yeadon, Leeds	100.00%	100.00%	100.00%	100.00%
	Clariant Horsforth Ltd	Yeadon, Leeds	0.00%	0.00%	100.00%	100.00%
Guatemala	Clariant Specialties (Guatemala) S.A.	Guatemala City	10.00%	10.00%	10.00%	10.00%
Japan	Clariant (Japan) K.K.	Tokyo	100.00%	100.00%	100.00%	100.00%
	Clariant Catalysts (Japan) K.K.	Tokyo	61.45%	61.45%	61.45%	61.45%
Korea	Clariant Plastics & Coatings (Korea) Ltd.	Pohang, Gyeongbuk	17.50%	17.50%	17.50%	17.50%
	Clariant (Korea) Ltd.	Pohang, Gyeongbuk	17.50%	17.50%	17.50%	17.50%
Luxembourg	Clariant Finance (Luxembourg) S.A.	Luxembourg	100.00%	100.00%	100.00%	100.00%
Morocco	Clariant (Maroc) S.A.	Casablanca	0.05%	0.05%	0.05%	0.05%
Mexico	Clariant (Mexico) S.A. de C.V.	Ecatepec de Morelos	99.99%	99.99%	99.99%	99.99%
	Clariant Plastics & Coatings Mexico S.A. de C.V.	Ecatepec de Morelos	99.99%	99.99%	99.99%	99.99%
Norway	Clariant Oil Services Scandinavia AS	Bergen	100.00%	100.00%	100.00%	100.00%
Peru	Clariant (Perú) S.A.	Lima	0.23%	0.23%	0.23%	0.23%
Singapore	Clariant South East Asia Pte. Ltd.	Singapore	100.00%	100.00%	100.00%	100.00%
South Africa	Clariant Southern Africa (Pty) Ltd.	Chloorkop, Gauteng	100.00%	100.00%	100.00%	100.00%
Spain	Clariant Ibérica Servicios S.L.	El Prat de Llobregat	85.03%	85.03%	85.03%	85.03%
Sweden	Clariant Production Sweden AB	Mölnådal	100.00%	100.00%	100.00%	100.00%
Switzerland	Clariant Plastics & Coatings AG	Muttenz	100.00%	100.00%	99.00%	99.00%
	Clariant Reinsurance AG	Muttenz	100.00%	100.00%	100.00%	100.00%
	Clariant International AG	Muttenz	100.00%	100.00%	100.00%	100.00%
	Clariant Oil Services AG	Muttenz	80.00%	80.00%	80.00%	80.00%
Thailand	Clariant (Thailand) Ltd.	Bangkok	100.00%	100.00%	100.00%	100.00%
Turkey	Clariant (Türkiye) A.S.	Gebze	100.00%	100.00%	100.00%	100.00%
UAE	Clariant (Gulf) FZE	Dubai	100.00%	100.00%	100.00%	100.00%
USA	Clariant Corporation	Charlotte	100.00%	100.00%	100.00%	100.00%

For further details on shareholdings indirectly held by Clariant Ltd, see note 35, Important subsidiaries on pages 64 – 66 of this report.

6. Other current non-interest-bearing liabilities

Other current non-interest-bearing liabilities amount to CHF 74 254 368 at the end of 2017 compared to CHF 72 012 820 at the end of 2016. They comprise third party liabilities of CHF 20 900 445 (compared to CHF 19 187 604 at the end of 2016) and intragroup liabilities of CHF 53 353 923 (compared with CHF 52 825 216 at the end of 2016).

Liabilities to other Group companies mainly comprise shareholder costs payable to Clariant International Ltd.

7. Other current interest-bearing liabilities

Other current interest bearing liabilities amount to CHF 251 960 656 at the end of 2017 compared to CHF 237 477 899 at the end of 2016. They comprise third party liabilities of CHF 250 000 000 (compared to CHF 115 472 542 at the end of 2016) and intragroup liabilities of CHF 1 960 656 (compared with CHF 122 005 357 at the end of 2016).

On 9 June 2017 a bond issued in 2011 with a nominal value of CHF 100 million reached maturity and was repaid.

On 21 April 2016, the certificate of indebtedness in 2011 with a notional amount of EUR 123 million reached maturity and was repaid.

A bond issued in 2012 with a nominal value of CHF 250 million, will fall due in 2018 and as a consequence was reclassified to current financial debt.

On 16 December 2016, Clariant Ltd signed an agreement for a new CHF 500 million five-year multi-currency revolving credit facility (RCF) with two one-year extension options. The RCF is structured as a club deal with ten key relationship banks with equal stakes and contains an accordion option for an increase up to CHF 600 million. The RCF is structured as a »back-stop« facility for rating purposes to maintain Clariant's liquidity headroom. It contains customary covenants such as negative pledge, cross default, ownership change and restriction on disposals, mergers and subsidiary debt. The Group is required to maintain one financial covenant (debt leverage) that is tested at the end of each financial half year. The credit facility was extended for another year until 16 December 2022.

The intragroup liabilities comprise the cash pool accounts and current accounts between Group companies.

8. Share capital

Capital issued	31.12.2017	31.12.2016
Number of registered shares each with a par value of CHF 3.70 (2016: CHF 3.70)	331 939 199	331 939 199
In CHF	1 228 175 036	1 228 175 036
Conditional capital	31.12.2017	31.12.2016
Number of registered shares each with a par value of CHF 3.70 (2016: CHF 3.70)	3 811 886	3 811 886
In CHF	14 103 978	14 103 978

9. Reserves

General reserves must be at least 20% of the share capital of Clariant Ltd as this is the minimum amount required by the Swiss Code of Obligations. As from 2011, if certain conditions are met, qualifying capital contributions made to Clariant Ltd by its shareholders since 1997 can be distributed without being subject to Swiss withholding tax. Qualifying capital contribution reserves of approximately CHF 1.7 billion are confirmed by the Swiss Federal Tax Administration (SFTA).

The SFTA is of the opinion that capital contribution reserves which were formerly offset with losses of CHF 1.26 billion will not qualify as capital contribution reserves anymore (even if compensated with newly generated retained earnings). The Swiss Administrative Court confirmed the SFTA's view in a particular case (decision of 4 June 2015, A-6072/2013), whilst the Swiss Supreme Court (as the highest Swiss court level) has up to now not dealt with this question. Clariant Ltd does not unconditionally share the above mentioned opinion. This is why potential capital contribution reserves are also documented as capital contribution reserves in the balance sheet.

10. Treasury shares

	2017	2016
Holdings at 1 January	7 887 728	9 195 810
Shares purchased at fair market value	—	819 813
Shares sold on exercise of put options	-800 000	—
Shares sold to counterparty out of options	-3 729 500	—
Shares sold at fair market value	-200 000	-1 240 318
Shares transferred to employees and Board of Directors	-516 649	-887 577
Holdings on 31 December	2 641 579	7 887 728

Each registered share has a par value of CHF 3.70 (2016: CHF 3.70).

In 2017 no shares were bought. The average price of shares bought in 2016 was CHF 18.26.

The average price of shares sold in 2017 was CHF 17.32 (2016: CHF 18.06).

The profit or loss from the sale of own shares is recorded in the income statement as other finance income or other expenses.

11. Reconciliation of equity

in CHF	Share capital	Statutory capital reserves		Voluntary retained earnings	Treasury shares	Net income	Total
		from capital contribution ¹	from retained earnings ²				
Balance 31 December 2016	1 228 175 036	2 588 117 282	-1 264 297 991	779 629 894	-113 512 384	144 897 331	3 363 009 168
Reclassification of profit carryforward to voluntary retained earnings				144 897 331		-144 897 331	—
Reclassification		-147 886 639		147 886 639			—
Distribution				-147 886 639			-147 886 639
Changes in treasury shares					65 379 359		65 379 359
Profit for the financial year						172 132 961	172 132 961
Balance 31 December 2017	1 228 175 036	2 440 230 643	-1 264 297 991	924 527 225	-48 133 025	172 132 961	3 452 634 849

¹ In 2012, the Swiss Federal Tax Administration confirmed qualifying capital contribution reserves of approximately CHF 1.7 billion (as per 31 December 2017 due to distributions still amounting of approximately CHF 1.2 billion). For further information see also note 9 to the financial statements of Clariant Ltd.

² This amount corresponds to capital contribution reserves formerly offset with losses. For further information see also note 9 to the financial statements of Clariant Ltd.

12. Non-current interest-bearing financial liabilities

in CHF	Interest rate	Term	Amount 31.12.2017	Amount 31.12.2016
Non-current interest-bearing liabilities to third parties				
Certificate of indebtedness	mixed	2015-2020	175 350 264	160 838 646
Certificate of indebtedness	mixed	2015-2023	175 276 977	160 796 297
Certificate of indebtedness	2.010	2016-2026	16 936 684	15 879 028
Certificate of indebtedness	1.137	2016-2023	30 981 205	28 680 394
Certificate of indebtedness	mixed	2016-2023	15 198 847	14 069 627
Certificate of indebtedness	0.779	2016-2021	64 891 252	60 066 485
Certificate of indebtedness	1.501	2016-2023	85 866 895	80 490 247
Certificate of indebtedness	1.012	2016-2020	182 884 804	171 383 995
Certificate of indebtedness	mixed	2016-2020	64 859 731	60 778 350
Certificate of indebtedness	2.618	2016-2021	112 469 944	112 469 944
Certificate of indebtedness	mixed	2016-2021	168 976 059	168 976 058
Straight bond	3.250	2012-2019	285 000 000	285 000 000
Straight bond	2.500	2012-2018	250 000 000	250 000 000
Straight bond	3.125	2011-2017	—	100 000 000
Straight bond	3.500	2012-2022	175 000 000	175 000 000
Straight bond	2.125	2014-2024	160 000 000	160 000 000
Total straight bonds and certificates of indebtedness			1 963 692 662	2 004 429 071
Other current interest-bearing liabilities to banks and other financial institutions			—	15 472 542
Other current interest-bearing liabilities to group companies			1 960 656	122 005 357
Total interest-bearing liabilities			1 965 653 318	2 141 906 970
Less: Other current interest-bearing liabilities			-251 960 656	-237 477 899
Total non-current interest-bearing liabilities to third parties			1 713 692 662	1 904 429 071
Non-current interest-bearing liabilities to Group Companies				
Financial liabilities to Clariant Produkte (Deutschland) GmbH	5.000	2014-2018	—	1 570 000
Financial liabilities to Clariant Service (France) SA	5.000	2014-2018	—	1 490 000
Financial liabilities to Clariant Oil Service Ltd	0.750	—	319 112	237 054
Financial liabilities to Clariant Plastics & Coatings Ltd	mixed	—	—	3 974 660
Non-current interest-bearing liabilities to Group Companies			319 112	7 271 714
Total non-current interest-bearing liabilities			1 714 011 774	1 911 700 785
Breakdown by maturity				
one to five years			1 229 751 166	1 451 785 192
more than five years			484 260 608	459 915 593
Total non-current interest-bearing liabilities			1 714 011 774	1 911 700 785

On 9 June 2017, a bond issued in 2011 in the amount of CHF 100 million reached maturity and was repaid.

On 26 April 2016, Clariant issued four certificates of indebtedness with a total amount of EUR 300 million. These certificates have a term of 4 years (EUR 212 million), 7 years (EUR 73 million) and 10 years (EUR 15 million) respectively. The interest rates vary between 0.776 and 2.010 %.

On 5 August 2016 Clariant issued five certificates of indebtedness with total amounts of EUR 95 million and USD 277 million.

These certificates have terms of 5 years (EUR 55 million and USD 277 million) and 7 years (EUR 40 million). While a tranche of EUR 13 million has a variable interest of 6 months EURIBOR plus 1.1% and a tranche in the amount of USD 166 million has a variable interest of 3 months LIBOR plus 1.5 %, the fixed-interest rates range between 0.779 % and 2.618 %.

13. Contingent liabilities

in CHF m	Outstanding liabilities 31.12.2017	Outstanding liabilities 31.12.2016
Outstanding liabilities as guarantees in favor of Group companies	404	751

Clariant Ltd belongs to the Swiss value-added tax (VAT) group of Clariant, and thus carries joint liability to the Swiss federal tax authority for value-added tax.

In connection with the dismantlement of a waste-water treatment plant in France, Clariant is faced with a claim by the Swiss-based group Novartis in the amount of CHF 22 million. Clariant has the view that this claim is unfounded. The case is currently pending at court.

In 2017, the European Commission (Antitrust) initiated an investigation on Clariant and some of its competitors active in the ethylene purchasing sector in some member states. The investigation is at an early stage; should antitrust violations be brought up against Clariant by the European Commission, it can impose significant fines that may affect the Group's, and thus of Clariant AG as the ultimate parent company's result and cash flow with an amount that may be material.

Given the ongoing nature of the investigation and the uncertainties associated with them, management has concluded that the amount of such fine cannot be determined as of 31 December 2017 as a reliable estimate is dependent on numerous factors which have not been defined as of the closing date. This assessment is supported by external advisors.

14. Shareholdings of members of the Board of Directors and the Executive Committee**1. Board of Directors****SHARES HELD**

Name	Number of shares granted ¹	Value of shares granted ¹	Number of shares granted	Value of shares granted	Number of privately held shares	Number of privately held shares
	31.12.2017	31.12.2017	31.12.2016	31.12.2016	31.12.2017	31.12.2016
Rudolf Wehrli	8 000	200 000	10 667	200 006	77 605	66 438
Günter von Au	6 000	150 000	8 000	150 000	52 212	44 212
Peter Chen	4 000	100 000	5 334	100 013	29 809	24 475
Harioolf Kottmann ²			See EC Overview			
Eveline Saupper	4 000	100 000	5 334	100 013	11 334	6 000
Carlo G. Soave	4 000	100 000	5 334	100 013	32 088	39 575
Peter Steiner	4 000	100 000	5 334	100 013	5 334	—
Claudia Suessmuth Dyckerhoff	4 000	100 000	5 334	100 013	6 434	—
Susanne Wamsler	4 000	100 000	5 334	100 013	969 516 ³	964 182 ³
Konstantin Winterstein	4 000	100 000	5 334	100 013	6 019 849	6 014 515
Total	42 000	1 050 000	56 005	1 050 097	7 204 181	7 159 397

¹ The number of shares granted for the period from Annual General Meeting to Annual General Meeting (April to March) as part of the BoD share program will be determined after the balance sheet date. The number disclosed is based on the amount of an estimated fair value of the shares at the grant date. Therefore corrections for the prior-year period were necessary.

² After taking over the function as CEO, no further Board of Directors' compensations are extended. Please refer to the Executive Committee table.

³ Thereof: 240 271 held by »The Honoré T. Wamsler Trust«

No options were granted to members of the Board of Directors for the years 2017 and 2016, nor did any member of the Board of Directors hold any options in those years.

For detailed information regarding emoluments of the Board of Directors and the Executive Committee, please refer to the Compensation Report.

2. Executive Committee

SHARES HELD

Name	Number of shares granted ¹ for 2017	Value of shares granted ¹ for 2017	Number of shares granted for 2016	Value of shares granted for 2016	Number of shares within vesting period 31.12.2017	Number of shares within vesting period 31.12.2016	Number of privately held shares 31.12.2017	Number of privately held shares 31.12.2016
Hariolf Kottmann	49 407	1 170 016	75 028	1 300 172	143 171	152 325	447 421	449 135
Britta Fuenfstueck	27 478	644 466	35 596	602 450	44 020	20 784	7 406	—
Patrick Jany	27 478	644 466	40 496	691 533	80 569	84 237	378 996	354 196
Christian Kohlpaintner	27 478	644 466	40 496	691 533	80 569	84 237	305 135	280 335
Total	131 841	3 103 414	191 616	3 285 688	348 329	341 583	1 138 958	1 083 666

¹ The number of shares granted as part of the matching share program will be determined after the balance sheet date. The number disclosed is based on a bonus payout of 72.8%, the amount of variable estimated remuneration accrued and an estimated fair value of the shares at the grant date. Therefore corrections are necessary.

No options were granted to members of the Executive Committee for the years 2017 and 2016, nor did any member of the Executive Committee hold any options in those years.

For detailed information regarding emoluments of the Board of Directors and the Executive Committee, please refer to the Compensation Report.

15. 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 13 of the Articles of Incorporation, each share has the right to one vote.

16. Significant shareholdings of 3% or more of total share capital

Based on the notifications received by Clariant and published by SIX Exchange Regulation, as at 31 December 2017 the following shareholders held more than 3% of voting rights in Clariant Ltd:

Shareholders	Voting rights
White Tale ¹ White Tale Holdings LP, Cayman Islands (Keith Meister; David J. Millstone; David S. Winter) Corvex Holdings LLC, Cayman Islands (Keith Meister) 40 North Latitude Master Fund Ltd., New York (David J. Millstone; David S. Winter)	20.00%
Group of former shareholders of Süd-Chemie AG ²	13.96%
Thereof (as a separate sub-group): Blue Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany), and Maple Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany) ³	3.73%
APG Asset Management N.V., Amsterdam, Netherlands	5.01%
BlackRock Inc., New York	3.80%

¹ As of 31 December 2017, White Tale Holdings LP held 20.00% and subsequently increased their shareholdings to 25.15%. On 25 January 2018, SABIC International Holdings B.V., Sittard, The Netherlands, controlled by the Public Investment Fund of Saudi Arabia (PIF) Riyadh, Saudi Arabia, acquired, subject to the necessary regulatory approvals, a 24.99% stake in Clariant Ltd previously held by White Tale Holdings LP, resp. Corvex Holdings LLC, resp. 40 North Latitude Master Fund Ltd. Thus SABIC has become Clariant Ltd's largest shareholder.

² The following former shareholders of Süd-Chemie AG form a group:

Wilhelm, Dr. Winterstein, Germany	Konstantin Alfred Winterstein, Germany
Dolf, Dr. Stockhausen, Switzerland	Max-Theodor, Dr. Schweighart, Germany
Axel, Dr. Schweighart, Germany	Peter, Dr. Schweighart, Germany
Rosemarie Schweighart, Germany	Moritz Ostenrieder, Germany
Dominique Kraus, Germany	Christian Ratjen, Germany
Estate Karl, Dr. Wamsler, Germany	Bettina Wamsler, Germany
Irene W. Banning, USA	Pauline Joerger, USA
Susanne Wamsler-Singer, Austria	Marianne Kunisch, Germany
Caroline A., Dr. Wamsler, USA	Maximilian Ratjen, Germany
Amelie Ratjen, Germany	Julius Ratjen, Germany
Christof Ratjen, Germany	Elisabeth Prinzessin zu Sayn-Wittgenstein, Germany
Christopher Weithauer, Germany	Georg A. Weithauer, Germany
Johanna Bechtle, Germany	Charlotte Bechtle, Germany
Kaspar Bechtle, Germany	Clara Redetzki, Germany
Luisa Redetzki, Germany	Marie Redetzki, Germany
Karl T. Banning, USA	Sophia P. Joerger, USA
Schuyler H. Joerger, USA	

³ According to a disclosure notification published on 18 January 2013, a group consisting of Konstantin Winterstein, 80333 München, Germany, and Elisabeth Prinzessin zu Sayn-Wittgenstein, 80333 München, Germany, holds 3.73% partially through Blue Beteiligungsgesellschaft mbH, Grossdingharting (Germany), and partially through Maple Beteiligungsgesellschaft mbH, Grossdingharting (Germany). The 3.73% held by this group are included in the 13.96% mentioned under footnote 2, but build a separate sub-group.

Disclosure notifications during the financial year 2017 reported to the Stock Exchange Disclosure Office pursuant to Art. 120 of the Financial Markets Infrastructure Act (FMIA) as well as further information in relation to disclosure notifications can be found on the SIX Swiss Exchange reporting platform: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

As of 31 December 2017, former shareholders of Süd-Chemie AG, who had exchanged their shares against Clariant shares in April 2011, held a total of 13.96% of the share capital of Clariant Ltd. These shareholders are related to each other for family or other reasons (especially the Wamsler, Winterstein, Schweighart and Stockhausen families).

On 31 December 2016, the following shareholders held a participation of 3% or more of the total share capital:

Group of former shareholders of Süd-Chemie AG: 13.89%, thereof (as a separate sub-group): Blue Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany) and Maple Beteiligungsgesellschaft mbH, Am Holzmaierfeld, 82064 Grossdingharting (Germany): 3.73%; APG Asset Management N.V., Amsterdam, Netherlands: 5.01%; Black Rock Inc., New York: 3.08%; Cymbria, (Canada): 3.06%, Citadel: 3.02%; Norges Bank (the Central Bank of Norway): 3.003%, UBS Funds Management (Switzerland) AG: 3.001%.

At 31 December 2017, Clariant AG itself held 2 641 579 shares in treasury, corresponding to 0.8% of the share capital.

17. Events subsequent to the balance sheet date

On 25 January 2018, the Saudi-Arabia based chemical group SABIC International Holdings B.V., Sittard, The Netherlands, controlled by the Public Investment Fund of Saudi Arabia (PIF) Riyadh, Saudi Arabia, announced the acquisition of a 24.99% stake in Clariant. This acquisition of shares, which were previously held by the White Tale Holdings LP, Cayman Islands, Corvex Holdings LLC, Cayman Islands, and 40 North Latitude Master Fund Ltd., New York, makes SABIC the largest Clariant shareholder.

Appropriation of available earnings

The Board of Directors proposes to appropriate the profit of 2017 of Clariant Ltd in the amount of CHF 172 132 961 as follows.

Annual result		in CHF
Carried forward from previous year		–
Profit for the year 2017		172 132 961
Total available earnings		172 132 961
Appropriation		in CHF
Voluntary retained earnings as at December 31, 2017		924 527 225
Transfer to voluntary retained earnings		172 132 961
Voluntary retained earnings as at January 1, 2018		1 096 660 186
Balance to be carried forward		–
Distribution of CHF 0.50 per share from reserves from capital contribution¹		164 500 000

¹ Depending on the number of issued shares on the date of the distribution. Shares held by Clariant Ltd or its subsidiaries are not entitled to a distribution and are not taken into account. The distribution amount is therefore expected to be in the region of CHF 164 500 000.

Distribution of reserves from capital contribution

The Board of Directors proposes a distribution from the confirmed capital contribution reserves of CHF 0.50 per share (following reclassification of the full distribution amount from reserves from capital contribution to voluntary retained earnings).

Report of the statutory auditor to the General Meeting of Clariant Ltd. Muttenz

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Clariant Ltd, which comprise the balance sheet as at 31 December 2017, income state-

ment and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 72 to 82) at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

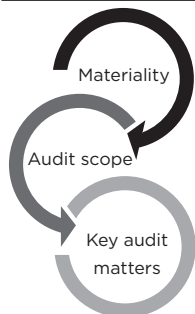
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OUR AUDIT APPROACH

OVERVIEW



Overall materiality: CHF 22 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Investigation by the European Commission in the ethylene purchasing market
- Valuation of shareholdings in Group companies

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstate-

ments may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 22 million
How we determined it	0.4% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the most relevant measure for the activities of Clariant Ltd as a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INVESTIGATION BY THE EUROPEAN COMMISSION IN THE ETHYLENE PURCHASING MARKET

Key audit matter	How our audit addressed the key audit matter
In July 2017, Clariant announced that it was part of an investigation of the European Commission into alleged breaches of the competition law in the ethylene purchasing market. Clariant is cooperating fully with the authorities. The eventual outcome of the investigation is uncertain both in relation to the timing of the process and the magnitude of fines, if any, which might be imposed. The investigation is in a very early stage and it has not been possible for Clariant to make a reliable estimate of the amount of any liability that could arise from any such future proceedings and no provision has been recorded by management. Accordingly, unexpected adverse outcomes could significantly impact Clariant AG's reported profit and balance sheet position.	<p>We discussed the status of the ongoing investigation with in-house and external legal counsel and read relevant correspondence and minutes of the Board of Directors' and management meetings.</p> <p>We obtained independent letters from external legal counsel to confirm our understanding of the status and their assessment of the investigation.</p> <p>We also used internal PwC legal and forensic specialists to assist us in evaluating the status of the investigation, the appropriateness of the assumptions taken and in assessing management's and the Board of Directors position. We discussed this assessment with management, the Audit Committee and the Board of Directors and have obtained written representations in relation to the case.</p> <p>As set out in the notes to the financial statements, the outcome of such investigation is dependent on the outcome of future developments and therefore the exposure to Clariant AG as ultimate parent company, as assessed by management and the Board of Directors is subject to inherent uncertainty. Based on the procedures performed and the information obtained, we are satisfied that the judgements and assessments made by management and the Board of Directors were appropriate.</p>
Please refer to page 79 (Contingent liabilities, note 13).	

VALUATION OF SHAREHOLDINGS IN GROUP COMPANIES

Key audit matter	How our audit addressed the key audit matter
We consider the valuation of shareholdings in Group companies to be a key audit matter due both to the significant scope for judgement involved with respect to the assumptions and the discount rates applied for the valuations, and to the significance of these investments on the balance sheet.	<p>We evaluated and challenged management's assumptions and the discount rates applied for valuation purposes.</p> <p>We assessed management's process to group certain investments and the application of generally accepted valuation methods, to calculate their value.</p> <p>We tested the calculation method and we compared the input figures used with the Group's accounting records. We also compared the actual results of the year under review with the figures included in the forecasts in the prior year in order to assess with hindsight whether any of the assumptions underlying the forecasts might have been too optimistic. We assessed the assumptions relating to the forecasts and found them to be consistent with actual developments and reasonable.</p>
Please refer to pages 74 to 75 (Shareholdings in Group companies, note 5).	<p>We involved PwC valuation specialists to assess the discount rate by comparing the rates with market information.</p> <p>We found the assumptions and the discount rates to be appropriate and reasonable.</p>

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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 appropriation of 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



Rolf Johner
Audit expert
Auditor in charge



Ruth Sigel
Audit expert



Basel, 12 February 2018

PricewaterhouseCoopers AG

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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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