

Financial Review

FIRST HALF YEAR 2019

25 July 2019

CLARIANT INTERNATIONAL LTD

Rothausstrasse 61
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Switzerland

what is precious to you?

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Key Financial Group Figures

Continuing operations	2019		First Half 2018	
	CHF m	% of sales	CHF m	% of sales
Sales	2 229	100.0	2 224	100.0
Local currency growth (LC):	4%			
<i>Organic growth</i> ¹	4%			
<i>Acquisitions/divestitures</i>	0%			
Currencies	-4%			
Gross profit	696	31.2	698	31.4
EBITDA before exceptional items*	355	15.9	362	16.3
EBITDA*	102	4.6	341	15.3
Operating income before exceptional items*	206	9.2	232	10.4
Operating result	-47	-2.1	210	9.4
Net result from continuing operations	-133	-6.0	128	5.8
Basic earnings per share (CHF/share)	-0.43		0.36	
Adjusted earnings per share (CHF/share)*	0.41		0.80	
Net result total ²	-101		211	
Operating cash flow	113		102	
Discontinued operations:				
Sales	1 109		1 165	
Net result from discontinued operations	32		83	
Other key figures total Group:		30.06.2019		31.12.2018
Net debt	1 801		1 374	
Equity (including non-controlling interests)	2 629		2 970	
Gearing	69%		46%	
Number of employees	17 790		17 901	

¹ Throughout this statement the term "organic growth" is used to mean volume and price effects excluding the impacts of changes in FX rates and acquisitions/divestitures.

² Total Group, including discontinued operations

* See Definition of Terms of Financial Measurements on pages 4 and 5.

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FINANCIAL DISCUSSION – FIRST HALF YEAR

Sales and Net Results First Half Year 2019

Clariant decided to sell the entire (standard and high value) Masterbatches and Pigments businesses in the continuing effort to optimize the Group's portfolio. Hence, these activities were reclassified to discontinued operations and the assets and liabilities pertaining to the two Business Units were reclassified to Assets held for Sale and Liabilities pertaining to Assets held for Sale.

Sales from continuing operations were above the corresponding period last year, increasing 4 % in local currency and largely unchanged in Swiss francs.

The **gross margin** in the first half of 2019 was 31.2 % of sales compared to 31.4 % recorded in the prior-year period.

Selling, general and administrative costs increased in the first half of 2019 to 29.9 % compared to 19.1 % in 2018 due to the one-off provision in the amount of CHF 231 million for an ongoing competition law investigation by the European Commission.

Research and development costs of CHF 88 million in the first half of 2019 were slightly above the CHF 85 million recorded a year ago.

Income from associates and joint ventures of CHF 12 million in the first half of 2019 was below the CHF 21 million in the corresponding period of the previous year.

The **total finance costs** increased to CHF 67 million in the first half of 2019 in comparison to CHF 47 million in 2018. Excluding the currency result, the finance costs were CHF 54 million for the first half year of 2019 compared to CHF 56 million in 2018. Hence, the increase in total finance costs was mainly driven by the net currency result, which amounted to CHF -13 million in 2019 compared to CHF 9 million in 2018. Total finance costs from continuing operations in the first half of 2019 were CHF 58 million versus CHF 41 million in 2018.

Tax expense from continuing operations of CHF 40 million decreased in the first half of 2019 compared to CHF 56 million tax expense recorded in the prior-year period. The effective tax rate from continuing operations before the one-off provision is lower than the prior-year period due to lower profits generated in high-tax jurisdictions.

Net result from continuing operations amounted to CHF -133 million loss in the first half of 2019 versus CHF 128 million income reported in the same period of 2018.

Result from discontinued operations of CHF 32 million was recorded during the first half of 2019 versus CHF 83 million reported in the same period of 2018.

Balance Sheet Key Figures – June 2019

Total assets decreased to CHF 7.925 billion as of 30 June 2019 from CHF 7.981 billion at the end of 2018 mainly due to the decrease in current assets driven by lower cash.

Investments in associates and joint ventures decreased to CHF 246 million from CHF 368 million at the end 2018. This is the net effect of the disposal of GTC associates in the United States, dividends paid mainly by Infracore companies in Germany, proportionate income and the reclassification to assets held for sale (see Note 7).

Short-term deposits increased to CHF 67 million from CHF 26 million at the end of 2018. They include short-term deposits with an original maturity between 90 and 365 days.

Assets held for sale and liabilities directly associated with assets held for sale amount to CHF 1.598 billion and CHF 557 million respectively as of 30 June 2019. This mainly concerns the assets and liabilities pertaining to the activities of the discontinued operations (see Note 7).

Non-current financial debts increased to CHF 1.735 billion at the end of June 2019 from CHF 1.711 billion at the end of December 2018 and **current financial debts** decreased to CHF 390 million at the end of June 2019 from CHF 529 million at the end of December 2018. The increase in non-current financial debts and the decrease in current financial debts are mainly due to the combined effect of the reclassification to current financial debts of the EUR 150 million certificates of indebtedness maturing in April 2020 and the new bond totaling CHF 200 million launched in April 2019. Additionally, a bond amounting to CHF 285 million issued in 2012 reached maturity on 24 April 2019 and was repaid. Due to the implementation of IFRS 16, finance lease liabilities presented as part of financial debts at the end of December 2018 were reclassified to the separate lines in the balance sheet.

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Provisions for current liabilities increased to CHF 409 million at the end of June 2019 from CHF 271 million at the end of December 2018. In 2017, the European Commission initiated an investigation on Clariant and other companies in the ethylene purchasing market. As a result of further developments Clariant made a one-off provision of CHF 231 million.

Equity decreased to CHF 2.629 billion at the end of June 2019 from CHF 2.970 billion at the end of 2018. This was mainly due to a distribution from capital contribution reserves of CHF 181 million, to net loss for the period of CHF 101 million, to the negative currency translation effect of CHF 32 million, to dividends paid to non-controlling interests amounting to CHF 16 million and to the combined effect of actuarial losses on retirement benefit obligations and a positive return on pension plan assets amounting to a negative CHF 44 million, net of deferred tax. The negative effects on equity as of end of June 2019 were partially offset by the effect of fair value adjustment on financial assets amounting to CHF 14 million, net of deferred tax and by the positive net hedge effect amounting to CHF 12 million.

Net debt increased to CHF 1.801 billion at the end of June 2019 from CHF 1.374 billion at the end of 2018. This figure includes current and non-current financial debts, lease liabilities, cash and cash equivalents, short-term deposits and financial instruments with positive fair values reported under other current assets, including the part reported under assets held for sale and liabilities directly associated with assets held for sale. The increase in net debt was partially driven by the implementation of IFRS 16 (see Note 2).

Gearing, which reflects net financial debt in relation to equity, including non-controlling interests, increased to 69 % from 46 % at the end of 2018 as a result of the increase in net debt and the impact of the implementation of IFRS 16 (see Note 2).

Cash Flow

Cash flow from operating activities before changes in working capital and provisions for the first half of 2019 was CHF 182 million compared to CHF 504 million for the first half of 2018.

Working capital and provisions increased by CHF 2 million in the first half of 2019 compared with an increase of CHF 241 million in the first half of 2018.

Net cash generated from operating activities was a positive CHF 113 million for the first half year of 2019 compared to a positive CHF 102 million for the first half year of 2018.

Investments in PPE and investments in intangible assets were CHF 87 million and CHF 9 million, respectively, for the first half year of 2019 compared to CHF 74 million and CHF 11 million, respectively, for the first half year of 2018.

Financing activities mainly include the distribution to the shareholders of Clariant and to non-controlling interests, proceeds from financial debt, repayments of financial debt and lease liabilities and the related interests paid and received.

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DEFINITION OF TERMS OF FINANCIAL MEASUREMENTS (UNAUDITED)

The following financial measurements are supplementary financial indicators. They should be considered in addition to, not as a substitute for, operating income, net income, operating cash flow and other measures of financial performance and liquidity reported in accordance with International Financial Reporting Standards (IFRS).

EBITDA

– (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income plus depreciation of PPE, plus impairment and amortization of intangible assets, and can be reconciled from the Condensed Financial Statements as follows:

EBITDA (Continuing)

	First Half	
<i>CHF m</i>	2019	2018
Operating result	–47	210
+ Depreciation of PPE	88	94
+ Impairment	–	1
+ Depreciation of RoU assets	27	–
+ Amortization of intangible assets	34	36
EBITDA	102	341

EBITDA before exceptional items

– is calculated as EBITDA plus expenses for restructuring, impairment and transaction-related costs, less impairment and gain/loss on disposals.

EBITDA before exceptional items (Continuing)

	First Half	
<i>CHF m</i>	2019	2018
EBITDA	102	341
+ Restructuring, impairment and transaction-related costs*	255	22
– Impairment (reported under Restructuring, impairment and transaction-related costs)	–	–1
+ Loss/gain from the disposal of activities not qualifying as discontinued operations**	–2	–
EBITDA before exceptional items	355	362

Operating income before exceptional items

– is calculated as operating income plus restructuring, impairment and transaction-related costs and gain/loss on disposals.

Operating income before exceptional items (Continuing)

	First Half	
<i>CHF m</i>	2019	2018
Operating result	–47	210
+ Restructuring, impairment and transaction-related costs*	255	22
+ Loss/gain from the disposal of activities not qualifying as discontinued operations**	–2	–
Operating income before exceptional items	206	232

* Restructuring, impairment and transaction-related costs 2019: CHF 255 million (2018: CHF 22 million), of which: Cost of goods sold CHF 0 million (2018: CHF 2 million);

Selling, general and administrative costs CHF 253 million (2018: CHF 19 million); Research and development expenses CHF 2 million (2018: CHF 1 million). Selling, general and administrative costs include a one-off provision of CHF 231 million.

** Loss/gain from the disposal of activities not qualifying as discontinued operations 2019: CHF 2 million gain (2018: CHF 0 million) reported under Selling, general and administrative costs.

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Adjusted earnings per share

– is the earnings per share adjusted for the impact of exceptional items, assuming an adjusted income tax rate of 26% for the period.

Adjusted earnings per share

	First Half	
<i>CHF m</i>	2019	2018
Operating income before exceptional items	206	232
+ Amortization of intangible assets	34	36
+ Finance income	12	15
– Finance costs	–58	–41
Adjusted income before taxes	194	242
– Adjusted income taxes	–50	–63
Adjusted net result	144	179
Thereof attributable to non-controlling interests	10	12
Thereof attributable to shareholders of Clariant Ltd	134	167
Weighted average number of shares outstanding	329 803 045	329 538 179
Adjusted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)	0.41	0.51

Net debt

– is the sum of current and non-current financial debt less cash and cash equivalents, short-term deposits and financial derivatives with positive fair values.

Net debt

<i>CHF m</i>	30.06.2019	31.12.2018
Non-current financial debt	1 735	1 711
+ Lease liabilities	218	–
+ Current financial debt	390	529
– Cash and cash equivalents	–509	–833
– Short-term deposits	–67	–26
– Financial derivatives with positive fair values	–3	–7
+ Net debt reported as held for sales	37	–
Net debt	1 801	1 374

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CONDENSED FINANCIAL STATEMENTS OF THE CLARIANT GROUP

Consolidated balance sheets

ASSETS	30.06.2019		31.12.2018	
	CHF m	%	CHF m	%
Non-current assets				
Property, plant and equipment	1615		2081	
Right-of-use assets	220		–	
Intangible assets	1405		1682	
Investments in associates and joint ventures	246		368	
Financial assets	224		211	
Prepaid pension assets	28		30	
Deferred income tax assets	247		269	
Total non-current assets	3985	50.3	4641	58.1
Current assets				
Inventories	702		1018	
Trade receivables	686		1017	
Other current assets	305		366	
Current income tax receivables	73		65	
Short-term deposits	67		26	
Cash and cash equivalents	509		833	
Total current assets	2342	29.6	3325	41.7
Assets held for sale	1598	20.1	15	0.2
Total assets	7925	100.0	7981	100.0
EQUITY AND LIABILITIES				
	CHF m	%	CHF m	%
Equity				
Share capital	1228		1228	
Treasury shares (par value)	–8		–8	
Other reserves	–390		–189	
Retained earnings	1633		1767	
Total capital and reserves attributable to Clariant shareholders	2463		2798	
Non-controlling interests	166		172	
Total equity	2629	33.2	2970	37.2
Liabilities				
Non-current liabilities				
Financial debts	1735		1711	
Deferred income tax liabilities	44		47	
Retirement benefit obligations	728		778	
Lease non-current liabilities	163		–	
Provision for non-current liabilities	125		125	
Other liabilities	69		72	
Total non-current liabilities	2864	36.1	2733	34.2
Current liabilities				
Trade and other payables	807		1266	
Financial debts	390		529	
Current income tax liabilities	214		212	
Lease current liabilities	55		–	
Provision for current liabilities	409		271	
Total current liabilities	1875	23.7	2278	28.6
Liabilities directly associated with assets held for sale	557	7.0	–	–
Total liabilities	5296	66.8	5011	62.8
Total equity and liabilities	7925	100.0	7981	100.0

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Consolidated income statements

	First Half			
	2019		2018	
	<i>CHF m</i>	%	<i>CHF m</i>	%
Sales	2 229	100.0	2 224	100.0
Costs of goods sold	-1 533	68.8	-1 526	68.6
Gross profit	696	31.2	698	31.4
Selling, general and administrative costs	-667	29.9	-424	19.1
Research and development	-88	3.9	-85	3.8
Income from associates and joint ventures	12	0.5	21	0.9
Operating result	-47	-2.1	210	9.4
Finance income	12	0.5	15	0.7
Finance costs	-58	2.6	-41	1.8
Income before taxes	-93	-4.2	184	8.3
Taxes	-40	1.8	-56	2.5
Net result from continuing operations	-133	-6.0	128	5.8
Attributable to:				
Shareholders of Clariant Ltd	-141		117	
Non-controlling interests	8		11	
Net result from discontinued operations	32		83	
Attributable to:				
Shareholders of Clariant Ltd	30		82	
Non-controlling interests	2		1	
Net result total	-101		211	
Attributable to:				
Shareholders of Clariant Ltd	-111		199	
Non-controlling interests	10		12	
Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/ share):				
Continuing operations	-0.43		0.36	
Discontinued operations	0.09		0.25	
Total	-0.34		0.61	
Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/ share):				
Continuing operations	-0.43		0.35	
Discontinued operations	0.09		0.25	
Total	-0.34		0.60	

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Consolidated statements of comprehensive income

	First Half	
<i>CHF m</i>	2019	2018
Net result	-101	211
Other comprehensive result:		
<i>Remeasurements:</i>		
Actuarial gain/loss on retirement benefit obligations	-175	80
Return on retirement benefit plan assets, excluding amount included in interest expense	122	-38
Fair value adjustment on financial assets	14	-1
Total items that will not be reclassified subsequently to the income statement, gross	-39	41
Deferred tax on remeasurements	9	-10
Total items that will not be reclassified subsequently to the income statement, net	-30	31
Net investment hedge	14	5
Cash flow hedges	-2	3
Currency translation differences	-36	-40
Share of other comprehensive income of associates and joint ventures	2	-
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities	4	-
Total items that may be reclassified subsequently to the income statement	-18	-32
Deferred tax effect	-	-
Total items that may be reclassified subsequently to the income statement, net	-18	-32
Other comprehensive result for the period, net of tax	-48	-1
Total comprehensive result for the period	-149	210
Attributable to:		
Shareholders of Clariant Ltd	-159	202
Non-controlling interests	10	8
Total comprehensive result for the period	-149	210
Total comprehensive result attributable to shareholders of Clariant Ltd arising from:		
Continuing operations	-168	119
Discontinued operations	9	83
Total comprehensive result attributable to shareholders of Clariant Ltd	-159	202

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Consolidated statement of changes in equity

	First Half									
			Other reserves							
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves	Retained earnings	Total attributable to equity holders	Non- controlling interests	Total equity
CHF m										
Balance 31 December 2017	1228	-10	1171	5	-1093	83	1459	2760	179	2939
Changes in accounting policy						-	-4	-4		-4
Balance 1 January 2018	1228	-10	1171	5	-1093	83	1455	2756	179	2935
Net result						-	199	199	12	211
Cash flow hedge				3	-	3	-	3	-	3
Net investment hedge					5	5	-	5	-	5
<i>Remeasurements:</i>										
Actuarial gain/ loss retirement benefit obligations						-	80	80		80
Return on retirement benefit plan assets, excluding amount included in interest expense						-	-38	-38		-38
Deferred tax on remeasurements						-	-10	-10		-10
Currency translation differences					-36	-36		-36	-4	-40
Fair value adjustment on financial assets						-	-1	-1		-1
Total comprehensive result for the period	-	-	-	3	-31	-28	230	202	8	210
Distributions			-165			-165		-165		-165
Dividends to non-controlling interests						-			-4	-4
<i>Employee share & option scheme:</i>										
Treasury share transactions		2				-	8	10		10
Balance 30 June 2018	1228	-8	1006	8	-1124	-110	1693	2803	183	2986
Balance 31 December 2018	1228	-8	1006	4	-1199	-189	1767	2798	172	2970
Changes in accounting policy ¹						-	1	1	-	1
Balance 1 January 2019	1228	-8	1006	4	-1199	-189	1768	2799	172	2971
Net result						-	-111	-111	10	-101
Cash flow hedge				-2		-2		-2		-2
Net investment hedge					14	14		14		14
<i>Remeasurements:</i>										
Actuarial gain/ loss retirement benefit obligations						-	-175	-175		-175
Return on retirement benefit plan assets, excluding amount included in interest expense						-	122	122		122
Deferred tax on remeasurements						-	9	9		9
Currency translation differences					-36	-36		-36	-	-36
Fair value adjustment on financial assets						-	14	14		14
Share of other comprehensive income of associates and joint ventures						-	2	2		2
Effect of the reclassification of foreign exchange differences on previously held net investments in foreign entities					4	4		4		4
Total comprehensive result for the period	-	-	-	-2	-18	-20	-139	-159	10	-149
Distributions			-181			-181		-181		-181
Dividends to non-controlling interests						-			-16	-16
<i>Employee share & option scheme:</i>										
Effect of employee services						-	3	3		3
Treasury share transactions						-	1	1		1
Balance 30 June 2019	1228	-8	825	2	-1217	-390	1633	2463	166	2629

¹ The impact of change in accounting policy includes, CHF 1 million related to IFRS16 implementation. See Note 2

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Consolidated statements of cash flows

	First Half	
<i>CHF m</i>	2019	2018
Net result	-101	211
Adjustment for:		
Depreciation and amortization	184	162
Impairment and reversal of impairment	-	1
Impairment of working capital	9	18
Income from associates and joint ventures	-24	-33
Tax expense	56	88
Net financial income and costs	42	41
Loss/(gain) from the disposal of activities not qualifying as discontinued operations	-2	-
Other non-cash items	-	3
Total reversal of non-cash items	265	280
Dividends received from associates and joint ventures	34	38
Payments for restructuring	-16	-25
Cash flow before changes in working capital and provisions	182	504
Changes in inventories	-62	-122
Changes in trade receivables	-43	-35
Changes in trade payables	-84	20
Changes in other current assets and liabilities	-20	-32
Changes in provisions (excluding payments for restructuring)	207	-72
Cash generated from operating activities	180	263
Income taxes paid	-67	-161
Net cash generated from operating activities	113	102
Investments in property, plant and equipment	-87	-74
Investments in intangible assets	-9	-11
Investments in financial assets, associates and joint ventures	-1	-1
Sale of property, plant and equipment and intangible assets	12	4
Changes in short-term deposits	-41	-3
Changes in other financial assets	6	-5
Proceeds from the disposal of associates and financial assets	2	3
Proceeds associated to disposals of activities not qualifying as discontinued operations	10	-
Net cash provided by/used in investing activities	-108	-87
Purchase of treasury shares	-1	-
Distributions from the reserves to the shareholders of Clariant Ltd	-181	-165
Dividends paid to non-controlling interest	-16	-4
Proceeds from financial debts	268	70
Repayments of financial debts	-335	-60
Repayments of lease liabilities	-29	-
Interest paid	-35	-41
Interest paid for leases	-6	-
Interest received	11	15
Net cash provided by/used in financing activities	-324	-185
Currency translation effect on cash and cash equivalents	-5	-10
Net change in cash and cash equivalents	-324	-180
Cash and cash equivalents at the beginning of the period	833	701
Cash and cash equivalents at the end of the period	509	521

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**1. Basis of preparation of financial statements**

These financial statements are the interim condensed consolidated financial statements (hereafter “the interim consolidated financial statements”) of Clariant Ltd, a company registered in Switzerland, and its subsidiaries (hereafter “the Group”) for the six-month period ended on 30 June 2019. They are prepared in accordance with the International Accounting Standard 34 (IAS 34 Interim Financial Reporting) and were approved by the Board of Directors on 24 July 2019. These interim consolidated financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2018 (hereafter “the annual financial statements”) as they provide an update of information reported previously. The accounting policies applied are consistent with the ones applied at year-end 2018, except for the adoption of new and amended standards as set out below.

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and disclosure of contingent liabilities at the date of the interim consolidated financial statements. If, in the future, such estimates and assumptions, which are based on management’s best judgment at the date of the interim consolidated financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

2. New accounting standards

The Group has applied the following standards and amendments for the first time:

- IFRS 16, Leases
- Annual improvements 2015 – 2017 Cycle
- IFRIC 23, Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.

The Group had to change its accounting policies and made certain adjustments as of 1 January 2019 following the adoption of IFRS 16. The other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

IFRS 16, Leases, introduces a new lessee accounting approach by which the lessee is 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 leaseback accounting and requires new and different disclosures. This new standard replaces the guidance of IAS 17, Leases, and is effective for accounting periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 as of 1 January 2019 by applying the simplified transition approach, not restating comparative amounts for 2018. The reclassification and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had been previously classified as operating leases under IAS 17, Leases. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. For leases previously classified as finance leases, the Group recognized the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. For the measurement of the right-of-use assets at the date of first-time application, initial direct costs were not taken into account, as permitted by IFRS 16. The Group has also elected to apply the practical expedient that allows to rely on its assessment of whether leases were onerous by applying IAS 37 immediately before the date of initial application as an alternative to performing an impairment review.

The adoption of IFRS 16 affected the balance sheet on 1 January 2019 by a decrease of CHF 17 million of property plant and equipment, an increase of CHF 249 million of right-of-use assets, a decrease of CHF 18 million of financial debts and an increase of CHF 249 million of lease liabilities. The cumulative effect recorded at 1 January 2019 was an increase in retained earnings of CHF 1 million.

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The reconciliation from operating lease commitments under IAS 17 as at 31 December 2018 to lease liabilities under IFRS 16 as at 1 January 2019 is as follows:

Obligation from operating leases as at 31 December 2018:	CHF	260 million
Effect of discounting	CHF	-35 million
Carrying amount of finance lease liabilities as at 31 December 2018	CHF	17 million
Short-term leases and low-value leases recognized on a straight-line basis as expense	CHF	-7 million
Adjustments as a result of a different treatment of extension and termination options	CHF	15 million
Other adjustments	CHF	-1 million
Lease liabilities as at 1 January 2019	CHF	249 million

The weighted-average incremental borrowing rate for lease liabilities initially recognized as of 1 January 2019 was approximately 3.4 %.

3. Seasonality of operations

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

4. Revenue recognized over a period of time

Revenue recognized over a period of time incurred in the first six months of 2019 amounted to CHF 48 million compared to CHF 39 million for the same period of the prior year. It arose almost exclusively in the Business Area Natural Resources.

5. Changes in segment reporting

Clariant has reallocated the Business Unit Additives from the Business Area Plastics & Coatings to the Business Area Natural Resources (now comprising BU Oil & Mining Services, BU Functional Minerals and BU Additives). The Business Area Plastics & Coatings (BU Masterbatches including the Business Line Healthcare Packaging and BU Pigments) is reported under discontinued operations. Restatements for 2018 have been made accordingly.

6. Fair value measurement

IFRS 13, Fair Value Measurement, requires the disclosure of fair value measurements for financial instruments 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).

All derivative financial instruments held by the Group at the end of June 2019 are classified as "Level 2" as defined by IFRS 13, Fair Value Measurement. The valuation of forward exchange rate contracts is based on the discounted cash flow model, using observable inputs such as interest curves and spot rates. FX options are valued based on a Black-Scholes model, using major observable inputs such as volatility and exercise prices.

Clariant is also the owner of a number of small-scale participations in companies engaged in activities closely related to those of Clariant. These shareholdings are valued at fair value through other comprehensive income using "Level 3" methods to determine the fair value. Their valuation is based on multiples of projected earnings and discounted cash flows. The participations amounted to a total value of CHF 212 million at 30 June 2019 compared to CHF 198 million at the end of 2018 and are reported as part of Financial Assets. The change in value was mainly driven by the fair value estimation performed in June 2019 and resulting in an increase of CHF 16 million. The gain on the revaluation, amounting to CHF 14 million net of tax, was recognized in Other comprehensive income. The key unobservable inputs used in the fair value estimation of the most material participation that constitutes 90 % of these shareholdings are as follows: long-term revenue growth rate 1 %, long-term pre-tax operating margin 16.8 % and weighted-average cost of capital 8 %. The sensitivity analysis shows that if the long-term growth rate had been higher/lower by 1 % with all other variables held constant, the fair value would have been CHF 24 million higher/CHF 17 million lower. If the long-term pre-tax operating margin had been higher/lower by 1 % with all other variables held constant, the fair value would have been CHF 12 million higher/lower. If the weighted average cost of capital had been higher/lower by 0.5 % with all other variables held constant, the fair value would have been CHF 10 million higher/CHF 9 million lower.

There are no long-term financial liabilities valued at fair value. The fair value of financial liabilities approximates their carrying value, except for the straight bonds. Fair values of straight bonds are determined by quoted market prices (level 1 in the fair value hierarchy) and amounted to CHF 579 million at the end of June

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2019 compared to their carrying value of CHF 535 million.

There were no transfers between the levels in 2018 and half year ended 30 June 2019.

7. Discontinued operations

As part of its portfolio management strategy, Clariant has started a project to reposition its portfolio of activities. In this context, the company has initiated the disposal of the Business Units Pigments and Masterbatches. Clariant considers it highly probable that these two Business Units will be sold within the next twelve months. The income and expenses of the two concerned Business Units have been reclassified to "Discontinued operations" in the consolidated income statement and the assets and liabilities pertaining to these activities have been reclassified as "Assets held for sale" and "Liabilities directly associated with assets held for sale" in the consolidated balance sheet, according to IFRS 5, Non-current assets held for sale and discontinued operations.

Assets and liabilities reclassified as "held for sale" in the context of this repositioning as of 30 June 2019 amount to CHF 1.598 billion and CHF 557 million, respectively.

Sales from discontinued operations amounted to CHF 1.109 billion in the first half of 2019, compared to CHF 1.165 billion in the same period of the previous year. The net result from discontinued operations was a gain in the amount of CHF 32 million for the first six months of 2019, compared to CHF 83 million in the corresponding period of the previous year.

8. Restructuring, impairment and transaction-related costs

During the first half year of 2019, Clariant recorded restructuring expenses pertaining to its continuing operations in the amount of CHF 9 million, mainly pertaining to projects in Europe and transaction-related costs in the amount of CHF 15 million. Additionally, a one-off provision of CHF 231 million was made for an ongoing competition law investigation by the European Commission.

During the same period in the previous year, restructuring, impairment and transaction-related costs pertaining to continuing operations amounted to CHF 22 million.

9. Distribution from reserves

On 1 April 2019, the General Meeting approved a distribution of reserves from capital contribution of CHF 0.55 per registered share from capital contribution reserves. On 8 April 2019, a distribution totaling CHF 181 million was made to Clariant shareholders.

10. Repayments of financial liabilities

On 24 April 2019, a bond issued in 2012 in the amount of CHF 285 million reached maturity and was repaid.

11. Issuance of new bond

On 15 April 2019, a new bond in the amount of CHF 200 million was issued with a term of 7 years and a fixed interest rate of 1.125 % per annum.

12. Events subsequent to the balance sheet date

On 22 July 2019, Clariant signed an agreement to sell its Healthcare Packaging business to a newly-formed affiliate of Arsenal Capital Partners, a private equity firm located in New York, USA. The closing of the transaction is subject to customary conditions and approvals and is expected in Q4 2019.

The total consideration of the sale amounts to approximately CHF 308 million at closing. The total consideration is equivalent to 13.2 times adjusted FY 2018 EBITDA.

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13. Business Area figures (Continuing Operations)

First Half	Sales to 3rd parties				EBITDA before exceptionals			EBITDA		
	2019	2018	% CHF	% LC	2019	2018	% CHF	2019	2018	% CHF
<i>CHF m</i>										
Care Chemicals	850	884	-4	-	154	163	-6	150	161	-7
Catalysis	432	404	7	8	88	88	-	84	87	-3
Natural Resources	947	936	1	6	149	150	-1	148	144	3
Business Areas total	2229	2224			391	401		382	392	
Corporate	-	-			-36	-39		-280	-51	
Total	2229	2224	-	4	355	362	-2	102	341	-70

	Operating income before exceptionals			Operating income			Systematic depreciation of PPE	
	2019	2018	% CHF	2019	2018	% CHF	2019	2018
<i>CHF m</i>								
Care Chemicals	118	132	-11	114	130	-12	32	28
Catalysis	52	50	4	48	49	-2	28	27
Natural Resources	98	113	-13	97	107	-9	37	25
Business Areas total	268	295		259	286		97	80
Corporate	-62	-63		-306	-76		18	14
Total	206	232	-11	-47	210	-122	115	94

14. Business Area margins (Continuing Operations)

First Half	Sales to 3rd parties (Share of Total)		EBITDA before exceptionals		EBITDA	
	2019	2018	2019	2018	2019	2018
<i>in %</i>						
Care Chemicals	38.1	39.7	18.1	18.4	17.6	18.2
Catalysis	19.4	18.2	20.4	21.8	19.4	21.5
Natural Resources	42.5	42.1	15.7	16.0	15.6	15.4
Total	100.0	100.0	15.9	16.3	4.6	15.3

	Operating income b. exceptionals		Operating income	
	2019	2018	2019	2018
<i>in %</i>				
Care Chemicals	13.9	14.9	13.4	14.7
Catalysis	12.0	12.4	11.1	12.1
Natural Resources	10.3	12.1	10.2	11.4
Total	9.2	10.4	-2.1	9.4

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15. Condensed earnings per share data

	First Half	
	2019	2018
Net result attributable to shareholders of Clariant Ltd (CHF m)		
Continuing operations	-141	117
Discontinued operations	30	82
Total	-111	199
Shares		
Number of registered shares at 30.06.2019 and 30.06.2018 respectively	331 939 199	331 939 199
Weighted average number of shares outstanding	329 803 045	329 538 179
Adjustment for granted Clariant shares	1 069 744	2 077 139
Weighted average diluted number of shares outstanding	330 872 789	331 615 318
Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	-0.43	0.36
Discontinued operations	0.09	0.25
Total	-0.34	0.61
Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)		
Continuing operations	-0.43	0.35
Discontinued operations	0.09	0.25
Total	-0.34	0.60

16. Finance income and costs

	First Half	
	2019	2018
Finance income		
<i>in CHF m</i>		
Interest income	8	5
Other financial income	4	10
Total finance income	12	15
Finance costs		
<i>in CHF m</i>		
Interest costs	-49	-46
<i>thereof effect of discounting of non-current provisions</i>	-2	-2
<i>thereof effect of lease liabilities</i>	-6	-
<i>thereof interest component of pension provisions</i>	-8	-8
Other financial expenses	-5	-10
Total finance costs before currency result	-54	-56
Currency result, net	-13	9
Total finance costs	-67	-47
thereof reported under discontinued operations	-9	-6
Total finance costs continuing operations	-58	-41

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17. Foreign exchange rates

Rates used to translate the consolidated balance sheets (closing rates)	30.06.2019	31.12.2018	Change %
1 USD	0.98	0.98	–
1 EUR	1.11	1.13	–2
1 BRL	0.26	0.25	4
1 CNY	0.14	0.14	–
100 INR	1.41	1.41	–
100 JPY	0.91	0.90	1

			First Half
Average sales-weighted rates used to translate the consolidated income statements and consolidated statements of cash flows	2019	2018	Change %
1 USD	1.00	0.97	3
1 EUR	1.13	1.17	–3
1 BRL	0.26	0.28	–7
1 CNY	0.15	0.15	–
100 INR	1.43	1.47	–3
100 JPY	0.91	0.89	2

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CLARIANT – WHAT IS PRECIOUS TO YOU?

Clariant is a focused and innovative specialty chemical company, based in Muttenz near Basel/Switzerland. On 31 December 2018, the company employed a total workforce of 17 901. In the financial year 2018, Clariant recorded sales of CHF 4.404 billion for its continuing businesses.

Clariant's corporate strategy is based on five pillars: focus on innovation and R&D, add value with sustainability, reposition portfolio, intensify growth, and increase profitability.

The company reports in three Business Areas: Care Chemicals, Catalysis, and Natural Resources.

www.clariant.com

Calendar of Corporate Events

30 October 2019	Nine Months 2019 Reporting
13 February 2020	Full Year 2019 Reporting
30 March 2020	Annual General Meeting

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