

Ciba Specialty Chemicals

Financial Review 1999

Ciba



Contents

Financial Highlights	1
Management's Discussion and Analysis	2
Consolidated Financial Statements	14
Consolidated Statements of Income	14
Consolidated Balance Sheets	15
Consolidated Statements of Cash Flows	16
Consolidated Statements of Shareholders' Equity	17
Business Segment Data	18
Geographic Data	20
Note 1: Summary of significant accounting policies	21
Note 2: Exchange rates of principal currencies	22
Note 3: Acquisitions and divestitures	23
Note 4: Inventories	24
Note 5: Property, plant and equipment	24
Note 6: Goodwill and other intangible assets	24
Note 7: Financial instruments and investments	24
Note 8: Accruals and other current liabilities	26
Note 9: Restructuring and special charges	26
Note 10: Short-term debt	26
Note 11: Long-term debt	27
Note 12: Income taxes	27
Note 13: Other liabilities	28
Note 14: Shareholders' equity	28
Note 15: Stock-based compensation plans	28
Note 16: Retirement benefits	30
Note 17: Earnings per share	31
Note 18: Related party transactions	31
Note 19: Commitments and contingencies	31
Independent Auditors' Report	33
Five Year Summary of Selected Financial Data	34
Major Consolidated Subsidiaries and Associated Companies	36
Ciba Specialty Chemicals Holding Inc. Financial Statements	38
Glossary of Financial Terms	40

Year in review

Solid sales growth

Operational improvements and tight asset management lead to better results in the second half

Operating cash flows exceed one billion Swiss francs

Debt repayments improve liquidity

Financial Highlights

(in millions of Swiss francs, except share and per share data)

Year ended December 31,	Sum of continuing and discontinued ⁽¹⁾ operations		Continuing operations	
	1999	1998	1999	1998
Net sales	8 972	8 423	7 244	6 632
Operating income	790	(270)	658	(253)
Net income	325	(739)	238	(726)
Basic and diluted earnings per share	4.89	(11.15)	3.58	(10.95)

Financial data before restructuring and special charges⁽²⁾

Operating income	790	877	658	799
Income before income taxes	487	505	355	428
Net income	325	369	238	314
Basic and diluted earnings per share	4.89	5.57	3.58	4.74
Cash flows from operating activities	1 277	843	1 054	626
Capital expenditures	292	459	267	396
Research and development expenditures	305	304	256	249
Number of employees at year end	23 189	24 456	20 117	21 148
Top line growth	6.5%	7.7%	9.2%	7.1%
Top line growth in local currencies	5.4%	11.2%	7.7%	10.7%
EBITDA	1 306	1 356	1 112	1 217
EBITDA margin	14.6%	16.1%	15.4%	18.3%
Velocity	0.83	0.83	0.74	0.72

⁽¹⁾ In December 1999, the Company signed an agreement under which Morgan Grenfell Private Equity intends to buy the Performance Polymers business. The transaction is expected to be completed during the first quarter of 2000, subject to certain closing conditions. These include the assignment of contracts, the transfer of assets, such as joint venture interests, and regulatory approvals, particularly in the United States and Europe. As is required, the Performance Polymers business has been reported as a discontinued operation in the Consolidated Financial Statements.

⁽²⁾ In 1998 the sum of continuing and discontinued operations exclude the impact of CHF 1 147 million (CHF 1 108 million after tax) related to restructuring and special charges of which CHF 1 012 million represents the write-off of in-process research and development costs. Continuing operations exclude the impact of CHF 1 052 million (CHF 1 040 million after tax) related to restructuring and special charges of which CHF 1 012 million represents the write-off of in-process research and development costs.

See Glossary of Financial Terms

Management's Discussion and Analysis

(in millions of Swiss francs, except share and per share data)

Results of the sum of continuing and discontinued operation

	1999	1998
Net sales	8 972	8 423
Operating income	790	(270)
Net income	325	(739)

Financial data before restructuring and special charges

Operating income	790	877
Net income	325	369
Operating cash flows ^(a)	1 277	843
Shareholders' equity at year end	3 685	3 293
Dividend per share (CHF)	2.00 ^(b)	2.00

^(a) Before restructuring payments.^(b) Proposal to shareholders' meeting.

For a definition of the financial terms used, please refer to the Glossary of Financial Terms on page 40.

After a slow start market conditions improved

Market conditions in our customer industries were characterized, during 1999, by the aftermath of the Asian crisis and weak economic conditions in many European countries particularly in the early part of the year. During the third and fourth quarter, however, market conditions improved. These improvements were especially evident as demand increased in our end user markets in Japan and Europe.

Currency trends

Average currency exchange rates for the entire year for the major currencies, used for translating the consolidated statement of income into Swiss francs, were similar in both 1999 and 1998. The overall effect of exchange rate fluctuations on the Company's 1999 income was, therefore, not significant when compared to 1998.

Year-end exchange rates, used for translating the balance sheet into Swiss francs were, however, significantly different when comparing December 31, 1999 to December 31, 1998. This resulted in large currency effects on the Swiss franc value of balance sheet items. The effect of different year-end exchange rates is described and quantified in more detail in the balance sheet section of this Management Discussion and Analysis.

Comparability

To facilitate a meaningful analysis and interpretation of the Company's results, this Management's Discussion and Analysis includes a brief operational overview of the historical Company, including the Performance Polymers division. The nature of discontinued operations is described and key details about the sale of the Performance Polymers business are included. As is required, the major portion of this report focuses on discussion and analysis of the results of continuing operations. In this regard, certain significant events in both the current and past year should be considered. Unless explicitly stated otherwise, this Management Discussion and Analysis has been prepared using "comparable basis results". Comparable basis results exclude discontinued operations and restructuring and special charges incurred in 1998.

Operational overview of historical Company including Performance Polymers

Clear and consistent strategy led to improvement in underlying operational income

Several years of company-wide restructuring and further profit improvement programs initiated early in the year enabled the Company to achieve further operational improvements in its core businesses. These efficiency improvements enabled the Company to exceed the operational cost saving target of CHF 150 million which was announced in 1998. In addition, new organizational structures in all divisions, based on the successful Additives model, led to sharper market focus. Despite the very difficult start to the year, this clear and consistent strategy led to an improvement in operational and market performance. Sales grew by 7% to reach CHF 8 972 million. Operating income, adjusted for certain non-operational items described below, improved by CHF 45 million. This underscores the strong business performance achieved by the Company's divisions. The performance of Colors and Performance Polymers improved strongly, while Additives and Consumer Care continued to perform at the high levels achieved in 1998. In Water Treatments, its second half performance already reflected positive results of the reorganization programs initiated during the first quarter of 1999.

Certain non-operational items negatively affected the Company's operating income and net income. In 1998, a non-recurring one-time income from an insurance settlement of CHF 43 million was recorded. Equity income from the Company's major equity affiliate, Hexcel, decreased by CHF 89 million compared to 1998. Inventory adjustments in the worldwide commercial aerospace market was the main reason for Hexcel's lower result.

Comparable income	1999	1998
Operating income	790	877
One-time insurance income	–	(43)
Hexcel equity income	17	(72)
Operating income excluding non-operational items	807	762
Increase 1999 compared to 1998	6%	

Key performance ratios for the Company including Performance Polymers

	1999	1998
Sales growth	7%	8%
Expressed as a percentage of sales		
Operating income	8.8%	10.4%
EBITDA	14.6%	16.1%
Net income	3.6%	4.4%

Cash flows from operating activities exceed one billion Swiss francs

The combination of strong operational performance and effective asset management led to a growth in cash flows from operating activities to CHF 1 277 million in 1999 compared to CHF 843 million in 1998, before restructuring payments. The implementation of a program to focus capital expenditures on efficiency and safety-related items led to lower net cash used in investing activities. The improvement in operational performance and tight asset management led to reduced funding requirements. Cash available for debt repayment, calculated as cash provided by operating activities less cash used in investing activities and dividends paid, amounted to CHF 816 million. Cash available for debt repayment was primarily used for this purpose.

Discontinued operations – Performance Polymers business to be sold

Profitability restored to Performance Polymers division

The restructuring of the Performance Polymers division and the realignment of strategic focus toward selling higher value-added products was successfully concluded during the first half of 1999. This resulted in a strongly improved EBITDA of CHF 173 million. EBITDA margin improved to 10% compared to the 6.6% achieved in 1998.

Divestment underscores specialty chemical focus

In December 1999, the Company signed an agreement under which Morgan Grenfell Private Equity intends to buy the Performance Polymers business at a price agreed at CHF 1 845 million. The transaction is expected to be completed during the first quarter of 2000, subject to certain closing conditions. These include the assignment of contracts, the transfer of assets, such as joint venture interests, and regulatory approvals, particularly in the United States and Europe. This divestment underscores the Company's strategy of focusing its portfolio on specialty chemicals rather than specialty materials. The Performance Polymers business to be sold is substantially all of the previously reported Performance Polymers division. The Company expects to realize a net gain on the divestiture, which will be recorded at the date of closing.

The Performance Polymers business has been reported as a discontinued operation. This requires the Company to report separately, in the Consolidated Financial Statements, the Performance Polymers business' assets, liabilities and results of operations in both 1999 and 1998. The Performance Polymers business had revenues of CHF 1 729 million and CHF 1 791 million in the years 1999 and 1998, respectively. Income from discontinued operations, net of tax, amounted to CHF 87 million in 1999; a loss amounting to CHF 13 million was incurred in 1998. These results do not include an allocation of the Company's interest costs or unallocated corporate general and administrative expenses.

Improved profitability for continuing operations – excluding the results of Performance Polymers

The Company's strategic objectives of improving EBITDA margin and reducing net debt levels are supported by the divestment of the Performance Polymers business. EBITDA margin for continuing operations, excluding Performance Polymers business, amounted to 15.4% compared to 14.6% for the historical Company including the Performance Polymers division. Proceeds from the disposal will be used to reduce net debt levels. The positive effect of reduced interest costs, arising from reduced net debt levels, have not been reflected in the results of continuing operations for 1999 and 1998. The potential positive effects of reduced interest costs should, however, be considered in determining an appropriate comparative basis for results of continuing operations in 2000. For historical purposes the reported net income and earnings per share, before restructuring and special charges, for the Company including discontinued operations is an appropriate comparative basis.

Management's Discussion and Analysis

Results of continuing operations

	1999	1998
Net sales	7 244	6 632
Operating income	658	(253)
Net income	238	(726)

Financial data before restructuring and special charges

Operating income	658	799
Net income	238	314
Operating cash flows ^(a)	1 054	625

Shareholders' equity at year end	3 685	3 293
Dividend per share (CHF)	2.00 ^(b)	2.00

^(a) Before restructuring payments.

^(b) Proposal to shareholders' meeting.

Solid sales growth in improving markets

Sales increased to CHF 7 244 million or by 9% in Swiss francs and by 8% in local currencies. Sales growth compared to 1998 was a result of the following changes:

Consolidated sales	1999 compared to 1998
Volume/mix	7%
Price	(3)%
Currency	1%
Acquisitions/divestments	4%
Total in Swiss francs	9%

Sales, though starting from a slow first quarter, continued to improve throughout the year. The Company's global market presence enabled it to benefit from the strong economic recovery in Asia and the more recent upturn in Europe. The increased volume and changes in product mix compensated for selling price declines which led to overall sales growth. This growth was evident in all divisions, with particularly strong growth in the Additives division. The acquisition-related sales increase was mainly due to an additional quarter of consolidated Water Treatments sales. In order to highlight actual trends, these acquisition effects are excluded from the geographic sales comparisons discussed in the following paragraph.

In the Eastern Hemisphere, which includes Asia, Oceania, Africa and Middle East, sales increased strongly, in both Swiss francs and in local currencies. The most significant increases were observed in the China Region, Japan, South Korea, Indonesia and Australia. Sales into Asia have returned to pre-1997 sales levels. In the Western Hemisphere, which includes North, Central and South America, sales increased, in both Swiss francs and in local currencies. Sales were flat in the United States, higher in Canada and Central America, while in South America increases were posted in local currencies, though not reflected in Swiss francs. The improving sales trends noted in the last months of 1999, were insufficient to compensate for the poor sales performance in Europe, recorded earlier in the year. Sales decreases were posted in all the major European countries with the exception of Italy.

Geographic sales distribution

Europe	39%
North, Central and South America	36%
Asia	19%
Africa, Oceania and Middle East	6%

Margins remained stable

Gross profit margin remained stable at 31.6% of sales compared to 31.5% in 1998. This margin level reflects the positive effects of growth in volumes, changes in product mix and improvements in the procurement and supply chain processes and increased capacity utilization. These improvements were achieved through focused company-wide programs and the successful implementation of restructuring programs which led to improved efficiency and continued focus on customer requirements.

The Company simultaneously made good progress in the area of cost control and invested in the future

Ongoing period costs and expenses for continuing operations reduced compared to 1998. This improvement results from a combination of positive benefits from the Colors restructuring programs and the initiatives undertaken as part of Impact '99; the profit improvement program initiated in March of 1999. Set off against these operational savings are a number of cost increases resulting from continuing planned business expansions, investments in promising new technologies and improvements in overall business performance. Water Treatments costs are included for the full year for the first time. Employee compensation is based in part on business performance. The improved business performance, therefore, resulted in additional employee compensation. In addition, the comparison between years is affected by a number of normal but not necessarily recurring expenses such as preparing systems and processes for potential Year 2000 issues and the introduction of the Euro. Costs were also incurred, relating to a number of minor projects, which streamline processes and facilities. Finally the one-time insurance income reported in 1998 did not recur in 1999.

Continuing commitment to research and development

The Company continued to support its strategic initiatives of innovation and development of environmentally friendly products through significant investments in research and development. Research and development expenses increased by 3% to CHF 256 million in 1999.

Amortization of goodwill increased due to acquisition of Allied Colloids

Amortization of goodwill increased in 1999 to CHF 74 million. This increase of CHF 20 million is mostly related to the additional quarter of Water Treatments consolidation.

Decreased income from earnings of equity affiliates

The income from earnings of equity affiliates (investments in unconsolidated companies with greater than 20% and less than or equal to 50% ownership) amounted to CHF 15 million, before income taxes, in 1999 compared to CHF 93 million in 1998. The related income taxes are recorded separately in the Company's provision for income taxes.

The decrease in income from equity affiliates was attributable to Hexcel Corporation (49.3% ownership), which represents the most significant equity affiliate. Continued inventory adjustments in the commercial aerospace market, both in the United States and in Europe, led to Hexcel posting a lower operational performance. In addition, in September 1999, Hexcel announced a cost reduction and restructuring program to further rationalize its manufacturing facilities for certain products with the objective of restoring its profitability. The Company recorded its share of Hexcel's loss amounting to CHF 17 million in 1999, while in 1998 it reported income of CHF 72 million.

Operating income and EBITDA margin affected by non-operational items

	1999	1998
Operating income		
Absolute in CHF	658	799
As a % of sales	9.1%	12.0%
EBITDA		
Absolute in CHF	1 112	1 217
EBITDA margin	15.4%	18.3%
EBITDA excluding non-operational items		
Absolute in CHF	1 129	1 102
Increase 1999 compared to 1998	3%	

Operational performance reported in 1999 is adversely affected by reduced equity income from Hexcel of CHF 89 million and the non-recurring one-time insurance income of CHF 43 million reported in 1998. EBITDA, adjusted for these non-operational items, improved by 3%. On a comparable basis the underlying business performance improved in all divisions, with the exception of Water Treatments. In Water Treatments, the corrective actions that were initiated during the first quarter of 1999 have already led to improved financial performance.

The overall positive operational performance in 1999 resulted from improving market conditions coupled with the positive effects of restructuring programs commenced during 1997 and 1998. In addition, the positive results of Impact '99 also supported this improved operational performance.

Restructuring and special charges, net

The Company continued to successfully implement the restructuring programs which were announced during 1998. Please refer to Note 9 to the Consolidated Financial Statements for further details.

Management's Discussion and Analysis

Additives division results*Additives division results excluding Water Treatments*

Sales increased to CHF 2 426 million or by 10% in Swiss francs and by 8% in local currencies. Sales growth compared to 1998 was as a result of the following changes:

Sales development	1999 compared to 1998
Volume/mix	12%
Price	(4)%
Currency	2%
Total in Swiss francs	10%

After a slow start in the first quarter, sales growth accelerated throughout the year. The increased volume and changes in product mix compensated for selling price declines which led to overall sales growth. The effects from the sales price increases, announced in mid-1999, will be realized during 2000.

Sales growth occurred in all business units driven by improving global market conditions and continuing innovation. In Polymer Additives, new effect additives and novel stabilizer systems for polymer protection supported growth. Imaging and Coating Additives were particularly strong where the dispersion and rheology chemicals acquired from the former Allied Colloids were a major contributor to growth.

Geographically, in the Eastern Hemisphere strong sales performance was posted in most countries, especially in Japan and China Region. In Europe, sales were slow at the beginning of the year though improved strongly towards the end of year, resulting in overall moderate growth. In the Western Hemisphere, North and Central American sales increased over already high 1998 sales. In South America, despite significant currency devaluations, sales grew sufficiently in local currency to result in moderately increased sales in Swiss francs.

EBITDA	1999	1998
Absolute in CHF	540	539
EBITDA margin	22.3%	24.5%

EBITDA remained stable at CHF 540 million. This reflects the positive effects of growth in volumes, changes in product mix and procurement and process improvements. EBITDA margin declined to a normal level of 22.3% from the unusually high 24.5% in 1998. This is primarily a result of lower margins, as productivity improvements in procurement and production processes, volume growth and product mix changes could not fully offset the negative impact of decreased prices. This result was, however, well within the performance bandwidth of 20% to 25% considered by management as normal levels for this business.

Asset management	1999	1998
Net current operating assets		
Absolute in CHF	574	530
As a % of sales	24%	24%
Capital expenditures in CHF	66	79

In 1999, the division maintained its successful asset management record. Capital expenditures, which were lower than in 1998, were focused on efficiency and safety improvement related items. In intensity terms, inventories remained constant, while accounts receivable increased only marginally, despite strong sales in the fourth quarter of 1999 compared to weaker sales toward the end of 1998. Accounts payable followed a similar trend to accounts receivable. Consistent improvement in the efficiency and effectiveness of net current operating assets remains a major objective. A key initiative to support this objective is demand flow technology which aligns the purchasing, manufacturing and distribution activities with actual demand, thereby increasing reliability and reducing inventory levels.

As a result of this continued focus on asset management, velocity improved to 1.29 from 1.14 in 1998.

Water Treatments business unit results

Sales reached CHF 1 017 million for the full year ended 1999, compared to CHF 722 million for the nine months ended December 31, 1998. On a comparable basis, sales increased by 4%. Sales growth compared to 1998 was as a result of the following changes:

Sales development	1999 compared to 1998
Volume/mix	6%
Price	(3)%
Currency	1%
Additional quarter	37%
Total in Swiss francs	41%

Sales in the Paper Technology market segment developed well due to acquiring several new accounts and an improvement in the global paper industry. Pollution Control sales were slightly ahead of target. Stricter environmental legislation supported this achievement. Extractive Industries, despite a slow start, benefited from higher oil prices in the fourth quarter, which resulted in increased drilling activity and led to higher sales in late 1999.

Geographically, sales growth in the Eastern Hemisphere was strong, especially in Indonesia, South Korea, and Australia. In Europe, sales growth accelerated towards the end of the year, especially in France and the smaller European Union countries, resulting in an overall good performance. In the Western Hemisphere, sales in the United States were stable, while sales in Canada advanced strongly. Overall sales growth in the Western Hemisphere was moderate.

EBITDA	1999	nine months 1998
Absolute in CHF	117	142
EBITDA margin	11.5%	19.6%

EBITDA at CHF 117 million has not yet met expectations. Despite improved second half performance, the EBITDA margin declined for the entire year to 11.5% from 19.6% in 1998. The decisive actions, including the appointment of a new management team, that were initiated during the first half of 1999 to address the unsatisfactory performance, have started to show clear benefits. This is evident when comparing the 1999 half year results. Half year performance developed as follows:

1999	Second half	First half
Sales in CHF	514	503
EBITDA in CHF	68	49
EBITDA margin	13.2%	9.7%

The improved results reflect the positive effects of growth in volumes, changes in product mix and procurement and process improvements. In addition, right-sizing initiatives implemented earlier in the year, which resulted in headcount reductions of more than 250, have already resulted in lower costs.

Asset management	1999	1998
Net current operating assets		
Absolute in CHF	267	270
As a % of sales	26%	28%
Capital expenditures in CHF	82	102

In 1999, the business unit maintained its strict control over assets. Capital expenditures were invested in efficiency improvements, in safety upgrades to meet required standards and in completing the project to increase production capacity for Cationic Monomers in the United States. Inventory intensity improved, while accounts receivable intensity remained constant despite strong sales in the fourth quarter of 1999, compared to weaker sales at the end of 1998. Water Treatments intends to further improve current asset management through the introduction of the successful Additives model. The objective is to simultaneously improve reliability and reduce inventory levels.

As a result of this continued focus on asset management, velocity improved to 1.04 from 1.02 in 1998.

Colors division results

Sales increased to CHF 2 396 million or by 2% in Swiss francs and by 1% in local currencies. Sales growth compared to 1998 was a result of the following changes:

Sales development	1999 compared to 1998
Volume/mix	4%
Price	(3)%
Currency	1%
Total in Swiss francs	2%

In the business unit Colors for Inks, Paints and Plastics, after a slow first quarter, sales growth accelerated throughout the year. Increased volume and changes in product mix led to 7% growth in sales compared to 1998. Price declines, in this business unit, were not significant and stabilized toward the end of the year. This growth was supported by the continued focus on high value pigments for industrial paints, plastics, packaging and specialty inks, as well as polymer soluble colors, in the engineering plastics market.

In Textiles, after a very weak start, sales growth recovered in the third quarter and continued strongly throughout the fourth quarter of 1999. This growth reflected improving market conditions in the textile industry; due in large part to the economic recovery in Asia. The focus on reactive dyes enabled the division to extend market participation and grow sales. The wool and polyamide business also improved. The reactive print market was, however, further depressed and price erosion was observed in the stagnating disperse segment. While overall volumes were stable, sales prices declined which led to a sales value decline of 2% compared to 1998. Management estimates that the global market for textile dyes decreased by 10% in 1999.

Geographically, sales growth was strong in the Eastern Hemisphere, especially in the China Region, South Korea and Japan. The Western Hemisphere posted moderate growth, fueled by a strong increase in Canada, which was partly offset by lower Swiss franc sales in South America. While sales growth in local currencies was solid, it was insufficient to fully compensate for weaker currencies, especially the Brazilian Real. In Europe, where sales were slower to recover, sales decreased slightly compared to 1998. Performance in the European countries was lower, especially in Germany and the United Kingdom. Strong sales growth was, however, recorded in the European market during the fourth quarter.

EBITDA	1999	1998
Absolute in CHF	363	335
EBITDA margin	15.1%	14.3%

EBITDA was 8% higher than prior year. This improvement was primarily due to the benefits accruing from the proactive reorganization initiated by the creation of the Colors division. Streamlining and improving the production processes supported gross profit margins. In addition, normal ongoing costs were reduced. Overall cost reduction targets have been achieved. These benefits were offset, to some extent, by the additional costs of the increased production capacity created during 1998

Management's Discussion and Analysis

in the United States and the United Kingdom. This capacity for high performance pigments and dry-flush pigments was created in the Inks, Paints and Plastics business unit in anticipation of market demand. During the second half of 1999, these expected volume increases started to materialize.

Asset management	1999	1998
Net current operating assets		
Absolute in CHF	1 092	1 160
As a % of sales	46%	49%
Capital expenditures in CHF	79	162

Significant proactive asset management initiatives have resulted in an excellent performance. Capital expenditures, which focused on the major quinacridone project in the United States, as well as efficiency and safety improvements, were significantly down compared to 1998. The successful first phase implementation of a demand activated manufacturing and distribution system resulted in a significant reduction in inventory levels. In intensity terms, inventories declined by 5%. This reduction was achieved while simultaneously improving customer service levels. Accounts receivables increased slightly, primarily due to strong sales in the fourth quarter of 1999 compared to weaker sales in the fourth quarter of 1998.

As a result of this continued focus on asset management, velocity improved to 0.88 from 0.86 in 1998.

The following table shows the link between the previously reported Pigments (now principally the Inks, Paints and Plastic business unit) and Textile Dyes (now principally the Textiles business unit) divisions to the Colors division.

1999	Pigments	Textile Dyes	Colors
Sales	1 310	1 086	2 396
Operating income	171	67	238
EBITDA	249	114	363

1998	Pigments	Textile Dyes	Colors
Sales	1 231	1 113	2 344
Operating income	200	14	214
EBITDA	261	74	335

The preparation of separate financial results, which are comparable to the historical Pigments division, and Textile Dyes division, has become increasingly difficult. Estimates and assumptions regarding the portion of combined infrastructure which would have belonged to each separate unit become progressively more arbitrary. This financial link between the historical organizational structure and the current organizational structure will therefore, in the future not be presented.

Consumer Care division results

The division is implementing a new structure with three business units, Home and Personal Care, Paper Chemicals and Textile Chemicals. This new organization became effective January 1, 2000. Similar industry-focused organizational structures have produced positive results in terms of market and customer focus, profitability and efficient cost structures within our Additives and Colors divisions. The sales and industry comments below are presented on the basis of this new structure.

Sales increased to CHF 1 405 million or by 3% in Swiss francs and in local currencies. Sales growth compared to 1998 was a result of the following changes:

Sales development	1999 compared to 1998
Volume/mix	4%
Price	-
Currency	-
Portfolio changes	(1)%
Total in Swiss francs	3%

Sales growth in the division accelerated throughout the year, with especially high sales levels in the fourth quarter.

In the business units, sales growth was strong in Home and Personal Care, partly due to the successful introduction of new product forms in the area of skin care and comfort enhancers for fabric care. Sales of Paper Chemicals, while exhibiting solid growth overall, increased strongly in the fourth quarter as demand throughout the paper industry grew. This trend was supported by a significant product mix improvement, in particular, due to stronger sales in paper coloration. Difficult market conditions in the textile industry, on a comparable basis, resulted in a moderate sales growth in Textile Chemicals. Including, however, the positive effects of an additional quarters sales of products acquired from the former Allied Colloids, sales in the Textile Chemicals unit increased strongly.

Geographically, in the Eastern Hemisphere most markets in the region posted significant sales increases, particularly the China Region, India and Indonesia. Sales in the Western Hemisphere, on a comparable basis, showed solid sales growth, where particularly Mexico posted a strong increase. In South America, even though sales in local currencies were significantly higher, the increase was unable to offset currency devaluations. Sales in Europe decreased slightly with lower shares in particular from France, United Kingdom and Italy.

EBITDA	1999	1998
Absolute in CHF	207	210
EBITDA margin	14.7%	15.4%

Consumer Care faced difficult market conditions during the first half of the year in the paper industry and during much of the entire year in the textile industry. In addition, a larger proportion of the division's sales, as compared to the Company average, occur in South America, which was adversely affected by significant currency devaluations, especially in the Brazilian Real. Despite these challenges, an EBITDA of CHF 207 million was achieved. While this achievement was attributable to improving market conditions in Asia and during the latter part of the year to worldwide market improvement, it was also a reflection of successful new product introductions. EBITDA margin deteriorated to 14.7% from 15.4% in 1998, due in part to increased investment in research and development.

Asset management	1999	1998
Net current operating assets		
Absolute in CHF	429	419
As a % of sales	31%	31%
Capital expenditures in CHF	34	31

In 1999, the division continued to focus on asset management. Capital expenditures, which remained at low levels, were focused on efficiency and safety improvement related items. In intensity terms, inventories remained constant while accounts receivable increased only marginally despite strong sales in the fourth quarter of 1999 compared to weaker sales toward the end of 1998.

As a result of this continued focus on asset management, velocity improved to 1.41 from 1.35.

Effective treasury management

Although the international financial markets were on the whole far less volatile in 1999 than in 1998, two major trends in the markets were the focus of the Company's attention: a strengthening of the U.S. dollar and rising interest rates.

In the first half of 1999, the Swiss franc weakened against most of the major currencies, with the exception of the Euro, and there was a significant devaluation of the Brazilian Real. In the second half of 1999, the Swiss franc stabilized against most major currencies at these lower levels. During 1999, the Swiss franc fluctuated from a low of approximately CHF 1.60 to a high of approximately CHF 1.35 to the U.S. dollar. At December 31, 1999, the Swiss franc was at a level of CHF 1.58 against the U.S. dollar versus CHF 1.38 at the end of 1998. Despite the fluctuations in the currency rates from the beginning of 1999 to the end of 1999, the average exchange rates for the year in most major currencies did not fluctuate significantly from the average exchange rates for 1998.

In the second half of the year, global interest rates began to rise due to inflationary pressures and concerns about the Year 2000 issue. Through the effective use of financial instruments available in the financial markets, such as interest rate swaps and forward rate agreements, the Company was able to reduce the average cost of its total borrowings to 5.4% in 1999 from just below 6% in 1998. In 1999, the Company's net interest costs decreased by CHF 15 million to CHF 291 million compared to CHF 306 million in 1998. This reduction was achieved even though 1999 includes twelve months of financing for the debt incurred in connection with the Allied Colloids acquisition as compared to nine-months of financing in 1998. This improved performance reflects the effective treasury management through the use of selective financial instruments and debt refinancing at even more attractive conditions.

During 1999, the Company, in accordance with its stated risk management policy, continued to monitor its currency exposures and where appropriate entered into transactions to minimize its overall exposures to currency volatility in the currency markets. The Company has selectively executed foreign currency transactions to protect the cash flows of its operating companies against unfavorable foreign currency movements. In 1999, "other financial income (expense)" which includes foreign currency exchange gains and losses and net hedging expenses, improved by CHF 62 million to a net expense of CHF 5 million in 1999 from a net expense of CHF 67 million in 1998. This improvement was supported by the introduction of the Euro in Europe at the beginning of 1999, which allowed the Company to implement a Euro currency pool across all its European operations. This enabled the Company to further improve cash management, reduce costs and to simplify risk management through reducing the number of currencies requiring attention.

Effective tax rate

The Company has established and maintains a tax efficient organizational structure. This enabled the Company to achieve an effective tax rate of 29% in both 1999 and 1998. The effective tax rate is calculated by excluding the effects of the Allied Colloids goodwill amortization. In addition, in 1998 it also excluded the effects of the write-off of acquired in-process research and development costs, and a non-cash accounting gain on the exchange of a business, all of which were not recognized for tax purposes.

Management's Discussion and Analysis

Net income and earnings per share*Net income affected by reduced equity income*

	1999	1998
Net income	325	369
Income continuing operations	238	314
Income discontinued operations	87	55

Improving operational business performance and effective treasury management, which reduced overall financing costs, were unable to fully compensate for a number of non-operational items. These include reduced equity income, and one-time insurance incomes.

Earnings per share – basic and diluted

Basic and diluted earnings per share	1999	1998 ^(a)
Continuing	3.58	4.74
Discontinued operations	1.31	0.83
Net Income	4.89	5.57

^(a) The 1998 basic and diluted earnings per share is presented before restructuring and special charges. Including these charges, the Company reported basic and diluted loss per share from continuing operations of CHF (10.95), from discontinued operations of CHF (0.20) and from net income of CHF (11.15).

Earnings per share amounts were computed by dividing income from continuing operations, income from discontinued operations, net of tax and net income by the weighted average number of common shares outstanding.

Balance sheet*Operating assets strongly reduced but increased by year-end currency translation rates*

Optimizing the use of net assets continues to be a strong focus of management's attention. In currency adjusted terms, through strict asset management, both operational current assets and fixed assets were reduced during 1999 by CHF 422 million and CHF 221 million, respectively. Even though average currency exchange rates for the current year were similar to last year's, year-end currency exchange rates were significantly different, resulting in large currency effects on the Swiss franc value of balance sheet items. This was particularly true for the U.S. dollar and Japanese yen assets and liabilities. For these currencies, the year-end exchange rates have appreciated significantly year-on-year compared to the Swiss franc. For this comparison, refer to the exchange rate table in Note 2 to the Consolidated Financial Statements.

Active inventory reduction programs enabled the Company to reduce inventories by CHF 185 million in local currencies. After translating into Swiss francs, inventories were reduced by CHF 68 million. Inventory intensity improved significantly to 23% compared to 26% in 1998. Accounts receivable increased marginally by CHF 14 million in local currency terms. After translating into Swiss francs, accounts receivable increased by CHF 110 million. Accounts receivable intensity remained constant at 17%. This strong performance was achieved despite significant sales increases in the fourth quarter of 1999 compared to a slow fourth quarter in 1998. All divisions have successfully implemented current asset reduction programs which led to this good performance. Prepaid and other current assets were reduced; due in part to the repayment of a number of non-trade receivables and the reduction of value-added tax receivables. Fixed assets declined in local currency terms by CHF 221 million. This operational improvement was achieved through strictly focusing new capital expenditures on efficiency and safety improvement related items. As a result, new capital expenditures were significantly lower than prior year levels and the 1999 depreciation charge.

Net debt decreased by CHF 332 million. As significant portions of the Company's debt is denominated in U.S. dollars, negative currency translation effects amounted to CHF 330 million. Net debt reduction in local currencies amounted to CHF 662 million. This high level of debt reduction was funded through continuing positive cash flows provided from operating activities.

The Company's management believes that its current cash and cash equivalents, short-term investments, debt facilities and the cash generated from ongoing initiatives and operations will be adequate to satisfy the Company's future cash requirements for normal capital expenditure programs and its operations through fiscal 2000.

Velocity improved slightly

Velocity is a measurement designed to ensure that the Company continually improves the effectiveness of its asset utilization. Velocity improved to 0.74 from 0.72 in 1998. Excluding goodwill, velocity improved to 0.95 from 0.86 in 1998.

Economic profit affected by non-operational items

Economic profit is dependent on continued asset control coupled with growth in EBIT. Even though asset management and operational performance improved compared to 1998, these improvements could not fully compensate for a number of non-operational items. In addition, the average invested capital of the Water Treatments business has been included for the full year for the first time. Overall this led to an economic profit of CHF (134) million.

Cash flows

Operating cash flows exceed one billion Swiss francs

The Company generated operating cash flows from continuing operations amounting to CHF 1 054 million compared to CHF 626 million in the prior year, before restructuring payments. This increase was attributable to the strong operational performance and the efficient management of net operating assets. Successful inventory management programs resulted in reduced funding requirements of CHF 149 million, despite significantly increased sales volume. Active management of other operating assets and liabilities provided funds through the collection of non-trade receivables and value-added tax receivables, and the reduction in maintenance store inventories. While a number of non-operating items negatively affected net income, these items had no cash effect other than the one-time insurance income of CHF 43 million, the proceeds of which are included in 1999 cash receipts.

Cash used in investing activities for continuing operations was CHF 95 million. Capital expenditures at CHF 267 million were significantly lower than the CHF 396 million incurred in 1998. Capital expenditures were strictly focused on efficiency and safety improvement-related items. The Company's major investments continued to be made in the Inks, Paints and Plastics business unit of the Colors division and in the core Water Treatments business. These investments create more cost-effective production processes and increase capacity. Capital expenditures in 1999 were lower than the depreciation charge of CHF 377 million.

Cash available for debt repayment, calculated as cash provided by operating activities plus net cash provided by operating activities less cash used in investing activities and dividends paid, amounted to CHF 816 million. Cash available for debt repayment was used primarily for this purpose.

Environmental matters

The chemical industry is subject to stringent environmental, health and safety laws and regulations. It is the Company's policy to continuously develop and improve the environmental performance of key manufacturing processes through an active program to address environmental matters. In addition to process improvements, advanced waste treatment and disposal facilities have been commissioned at all major manufacturing sites that allow the sites to comply with recent laws and regulations applicable to waste streams. Management believes that the Company is in compliance with all such laws.

Prior to the Company's spin-off from Novartis AG, a Company-wide environmental audit was performed. Based on the results of the audit, management believed that the CHF 738 million in reserves recorded at that time were sufficient to meet all currently known and anticipated environmental claims and liabilities relating to the Company's past operations. These provisions have been adjusted as further information developed or circumstances changed and amounted to CHF 789 million at December 31, 1999 (CHF 745 million in 1998). The main difference between 1999 and 1998 relates to changing foreign currency exchange rates. The Company's environmental protection and improvement cash expenditures were approximately CHF 61 million in 1999 (CHF 55 million in 1998), including investments in construction, operations and development. The contractual terms of the pending sale of the Performance Polymers business stipulate that the Company will retain partial responsibility, under certain circumstances, for environmental claims related to the operations of the Performance Polymers business that have occurred prior to the sale date. Based upon current regulation and the information available, management believes that adequate provisions have been made in the Company's Consolidated Financial Statements and future costs will not have a material adverse impact on the Company's consolidated financial condition.

The predecessor of Novartis AG has been party to litigation with various insurance companies relating to environmental liability. Under the agreement with Novartis AG, the Company is entitled to 50% from any net proceeds from this litigation. In 1998, certain of the litigation related to sites located in the United States have been settled with the insurance companies. The Company's share of these settlements was approximately CHF 43 million and was recorded in income in 1998.

Management's Discussion and Analysis

Outlook 2000 and beyond

The Company expects positive profitability developments for 2000. The Company's target of an EBITDA margin of 16% to 17% of sales for the year is in line with the steady profitability improvement steps required to achieve the Company's EBITDA target of 18% to 20% by 2002. Key to these expectations are not only the continuation of the more benign economic environment noted in the later part of 1999 but primarily the results of our strategic focus on growth in our five profitable, high potential businesses. We anticipate above average sales growth. Benefits from the ongoing restructuring and profit improvement programs, from tight asset and purchase management and a strict capital expenditure should allow for further improvements in profitability and a strong cash flow.

The proceeds from the divestiture of the Performance Polymers business will allow the Company to further reduce its debt levels and thus increase its financial flexibility.

The Company was clearly on track towards achieving its mid-term targets.

Supplemental information*Euro conversion*

On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and adopted the Euro as their new common currency. The Euro trades on currency exchanges while the national currency units will remain legal tender in the participating countries for a transition period between January 1, 1999 and December 31, 2001.

During the transition period, cash-less payments can be made in the Euro and parties can elect to pay for goods and services and transact business using either the Euro or a national currency unit. Between January 1, 2002 and July 1, 2002, the new Euro banknotes and coins will be put into circulation in substitution for banknotes and coins in the old national currency units. By July 1, 2002 at the latest Euro banknotes and coins will be the only banknotes and coins to have legal tender status in participating member states.

The Company has in place a joint team representing affected functions within the Company. This team has established and implemented actions and performed the necessary systems changes to address the potential impact to the Company from the Euro conversion. These issues include, but are not limited to: 1) the technical challenges of adapting information systems to accommodate Euro transactions; 2) the competitive impact of cross-border price transparency; 3) the impact on currency exchange rate risks; 4) the impact on existing contracts and 5) tax, legal and accounting implications. Based on the Company's progress to date, management believes the introduction of the Euro and the phasing out of the national currency units will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Year 2000

The Company has, since the date of the spin-off, been addressing the Year 2000 issue. This effort has been conducted in combination with its project to implement worldwide standard information systems and processes.

The Year 2000 issue, as it related to the Company's own date-dependent systems, did not pose significant problems for the Company's business, processes and operations. The Year 2000 project plan was successfully executed and no significant irregularities have occurred in any business transactions with our customers and suppliers due to a Year 2000 issue. The Company's revenue patterns have not been affected by unusual customer buying levels. The costs of consultant fees, modifications, upgrades or replacements of software, hardware or capital equipment, which would not have been otherwise incurred, except for Year 2000 compatibility requirements, did not have a material impact on the Company's financial position or results of operations. The total costs of resolving the Year 2000 issue amounted to CHF 23 million. Thereof, CHF 10 million was incurred in 1999 and CHF 13 million in prior years. The Company does not expect any significant issues for business, processes and operations in the future as a consequence of the Year 2000 issue.

Market risk due to fluctuating foreign currency exchange rates and interest rates

The Company, as a result of its global operating and financial activities, is exposed to market risk from changes in foreign currency exchange rates and interest rates. The Company actively manages the resulting exposure through its regular operating and financing activities, and, when deemed appropriate, through the use of derivative financial instruments. In accordance with the written policies of the Company, such instruments are used only as risk management tools and not for speculative or trading purposes. The Company has not changed its written policy regarding the use of risk management tools since 1997.

On a monthly basis, global expected cash flows information is collected. Based on these cash flows, a consolidated exposure forecast by currency is prepared. Management, based on this exposure forecast, determines to what extent these consolidated currency exposures will be hedged. Foreign exchange forward contracts and options may be used to reduce the Company's exposure that results from the market risk arising from the fluctuation of foreign currency exchange rates. To reduce the cost of such activities, the Company may sell covered options. Potential losses, if any, on these sold options would be substantially offset by gains on the underlyings that are hedged. The Company's primary net foreign currency market exposures include the U.S. dollar, the Euro, the British pound, and the Japanese yen. In 1999 and 1998, the Company's hedging activities have been to a large extent focused on the U.S. dollar, while hedging activities on the Euro (or its legacy currencies) have been limited. The Company's British pound and Japanese yen exposure has been hedged selectively and on a case-by-case basis.

The fair value of foreign currency exchange contracts is sensitive to changes in foreign currency exchange rates. As of December 31, 1999 and 1998, a 10 percent appreciation in foreign currency exchange rates against the Swiss franc, with all other variables held constant, would result in a decrease in the fair value of the Company's financial instruments of CHF 87 million and CHF 8 million, respectively. Conversely, a 10% depreciation in these currencies would result in an increase in the fair value of the Company's financial instruments of CHF 79 million as of December 31, 1999 and CHF 14 million as of December 31, 1998. The change in the relative sensitivity of the fair value of the Company's financial instrument portfolio to the level of foreign currency exchange rates is primarily driven by an increase in the use of foreign currency swaps designed to hedge intercompany positions. As the impact of offsetting changes in the fair value of such intercompany positions is not included in the sensitivity model, these results are not indicative of an increase in the Company's actual exposure to foreign currency exchange risk. Consistent with the nature of the economic hedge of such foreign currency exchange contracts, such unrealized gains or losses would be compensated by the corresponding decreases or increases of the underlying transaction being hedged. The fair value of foreign currency exchange contracts is calculated by separating the two components and applying the forward rate and the balance sheet rate as well as a discount factor. This discount factor is composed of the respective yield curves as well as the number of days until maturity. The fair value of options is calculated by applying the Black-Scholes model.

The Company is exposed to market risks due to fluctuating interest rates primarily through its borrowing activities and less so through its investments. The Company utilizes borrowings denominated in Swiss francs and in foreign currencies to fund its working capital and investment needs. The majority of short-term borrowings are in floating interest rate instruments whereas the majority of long-term borrowings are in fixed interest rate instruments. The Company manages its ratio of fixed to floating interest rate instruments with the objective of achieving a mix which is appropriate both in terms of risk and cost. To manage this mix effectively, the Company, selectively, enters into interest rate swaps and forward rate agreements, in which it agrees to exchange various combinations of fixed and variable interest rates based on agreed-upon notional amounts.

There is inherent roll-over risk for borrowings as they mature and are renewed at current market rates. Based on the short-term and long-term debt balance outstanding at December 31, 1999 and December 31, 1998, a hypothetical one percentage point increase in interest rates for a one-year period would reduce net income by CHF 54 million and CHF 56 million, respectively. The assumption is that all debt would be impacted by this hypothetical one percentage point increase, no matter whether actual interest is based on a fixed or on a floating rate agreement.

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain important 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 and to continue to obtain sufficient financing to meet its liquidity needs, effects of overall economic conditions, including currency fluctuations, inflation and consumer confidence.

Consolidated Statements of Income

(in millions of Swiss francs, except share and per share data)

Year ended December 31,	Notes	1999	1998
Net sales		7 244	6 632
Cost of goods sold		4 956	4 546
Gross profit		2 288	2 086
Selling, general and administrative		1 315	1 077
Research and development		256	249
Amortization of goodwill		74	54
Income from earnings of equity affiliates	7	(15)	(93)
Restructuring and special charges	9	–	1 052
Operating income (loss)		658	(253)
Interest expense		(321)	(353)
Interest income		30	47
Other financial income (expense)		(5)	(67)
Minority interest		(7)	2
Income (loss) from continuing operations before income taxes		355	(624)
Provision for income taxes	12	117	102
Income (loss) from continuing operations		238	(726)
Income (loss) from discontinued operations, net of tax	3	87	(13)
Net income (loss)		325	(739)
Per share data:	17		
Basic earnings (loss) per share			
Continuing operations		3.58	(10.95)
Discontinued operations		1.31	(0.20)
Net income (loss)		4.89	(11.15)
Diluted earnings (loss) per share			
Continuing operations		3.58	(10.95)
Discontinued operations		1.31	(0.20)
Net income (loss)		4.89	(11.15)
Weighted average shares outstanding			
Basic		66 454 357	66 293 130
Diluted		66 462 898	66 293 130

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(in millions of Swiss francs, except share and per share data)

December 31,	Notes	1999	1998
Assets			
Current assets			
Cash and cash equivalents		413	206
Short-term investments		58	47
Accounts receivable, net of allowance of CHF 125 and CHF 111		1 241	1 131
Inventories	4	1 660	1 728
Prepaid and other current assets		574	829
Net current assets of discontinued operations	3	326	343
Total current assets		4 272	4 284
Property, plant and equipment, net	5	3 914	3 853
Goodwill and other intangible assets, net	6	2 292	2 119
Financial investments	7	600	583
Other assets		789	673
Net long-term assets of discontinued operations	3	588	574
Total assets		12 455	12 086
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable		562	467
Short-term debt	10	1 174	1 905
Income taxes payable		55	22
Accruals and other current liabilities	8	821	949
Total current liabilities		2 612	3 343
Long-term debt	11	4 265	3 648
Deferred income taxes	12	321	300
Other liabilities	13	1 514	1 455
Minority interest		58	47
Total liabilities		8 770	8 793
Shareholders' equity	14		
Common stock, par value CHF 10 per share – 82 130 117 shares authorized and 72 130 117 issued in 1999 and 1998		721	721
Additional paid-in capital		3 730	3 718
Retained earnings		(386)	(579)
Accumulated other comprehensive income		62	(125)
Treasury stock, at cost (1999 – 5 675 119 shares; 1998 – 5 676 798 shares)		(442)	(442)
Total shareholders' equity		3 685	3 293
Total liabilities and shareholders' equity		12 455	12 086

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(in millions of Swiss francs, except share and per share data)

Year ended December 31,	1999	1998
Cash flows from operating activities		
Net income (loss)	325	(739)
Deduct income (loss) from discontinued operations, net of tax	87	(13)
Income (loss) from continuing operations	238	(726)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	454	418
Deferred income taxes	35	37
Unremitted earnings of equity affiliates	4	(81)
Restructuring and special charges	–	1 052
Restructuring payments	(148)	(270)
Gain on sale/disposal of assets, net	(22)	(122)
Minority interest and other	(75)	(6)
Changes in operating assets and liabilities:		
Short-term investments	(4)	4
Accounts receivable	(1)	145
Inventories	149	111
Accounts payable	45	(20)
Other operating assets and liabilities	231	(187)
Net cash provided by continuing operations	906	355
Net cash provided by discontinued operations	174	165
Net cash provided by operating activities	1 080	520
Cash flows from investing activities		
Capital expenditures	(267)	(396)
Proceeds from sale of assets	35	15
Sale (acquisition) of businesses, net of cash	70	(3 539)
Loans and other long-term assets	67	(54)
Discontinued operations	(36)	(50)
Net cash used in investing activities	(131)	(4 024)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	(915)	9
Proceeds from long-term debt	330	3 829
Repayments of long-term debt	(49)	(544)
Dividends paid	(133)	(133)
Treasury stock transactions	–	(70)
Other	2	6
Net cash (used in) provided by financing activities	(765)	3 097
Effect of exchange rate changes on cash and cash equivalents	23	(31)
Net increase (decrease) in cash and cash equivalents	207	(438)
Cash and cash equivalents, beginning of year	206	644
Cash and cash equivalents, end of year	413	206
Supplemental cash flow information		
Cash paid for interest	(328)	(306)
Cash paid for income taxes	(95)	(66)

See Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(in millions of Swiss francs, except share and per share data)

	Notes	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock: unreserved shares	Treasury stock: reserved shares	Total
Balance at December 31, 1997		721	3 719	293	(25)	(101)	(271)	4 336
Net (loss)				(739)				(739)
Currency translation adjustments					(105)			(105)
Unrealized gain on available-for-sale securities, net of tax					5			5
Comprehensive (loss)				(739)	(100)			(839)
Cash dividends declared and paid				(133)				(133)
Treasury stock transactions	14					(63)	(7)	(70)
Other			(1)					(1)
Balance at December 31, 1998		721	3 718	(579)	(125)	(164)	(278)	3 293
Net income				325				325
Currency translation adjustments					187			187
Unrealized gain on available-for-sale securities, net of tax					1			1
Comprehensive income				325	188			513
Cash dividends declared and paid				(133)				(133)
Treasury stock transactions	14							—
Other			12	1	(1)			12
Balance at December 31, 1999		721	3 730	(386)	62	(164)	(278)	3 685

See Notes to Consolidated Financial Statements

Business Segment Data

(in millions of Swiss francs, except share and per share data)

	1999	1998		1999	1998
Net sales			Research and development expenditures		
Additives	3 443	2 921	Additives	135	122
Additives excluding Water Treatments	2 426	2 199	Additives excluding Water Treatments	116	111
Water Treatments ⁽¹⁾	1 017	722	Water Treatments ⁽¹⁾	19	11
Colors	2 396	2 344	Colors	79	89
Consumer Care	1 405	1 367	Consumer Care	42	38
Total net sales	7 244	6 632	Total research and development expenditures	256	249
Operating income			Capital expenditures		
Additives	471	505	Additives	148	181
Additives excluding Water Treatments	418	418	Additives excluding Water Treatments	66	79
Water Treatments ⁽¹⁾	53	87	Water Treatments ⁽¹⁾	82	102
Colors	238	214	Colors	79	162
Consumer Care	150	153	Consumer Care	34	31
Corporate and other expenses	(201)	(73)	Non-divisional capital expenditures	6	22
Restructuring and special charges	–	(1 052)	Total capital expenditures	267	396
Total operating income (loss)	658	(253)	Net Assets		
EBITDA			Net operating assets:		
Additives	657	681	Additives	2 915	2 806
Additives excluding Water Treatments	540	539	Additives excluding Water Treatments	1 928	1 827
Water Treatments ⁽¹⁾	117	142	Water Treatments	987	979
Colors	363	335	Colors	2 710	2 715
Consumer Care	207	210	Consumer Care	999	993
Corporate	(115)	(9)	Shared net assets not allocated to divisions ⁽²⁾	2 933	2 927
Total EBITDA	1 112	1 217	Non-operating net assets	315	49
EBITDA margin			Total net assets	9 872	9 490
Additives	19.1%	23.3%	Total assets		
Additives excluding Water Treatments	22.3%	24.5%	Operating assets:		
Water Treatments ⁽¹⁾	11.5%	19.6%	Additives	3 235	3 050
Colors	15.1%	14.3%	Additives excluding Water Treatments	2 174	2 010
Consumer Care	14.7%	15.4%	Water Treatments	1 061	1 040
Corporate	–	–	Colors	2 865	2 841
Total EBITDA margin	15.4%	18.3%	Consumer Care	1 066	1 059
Economic Profit			Shared assets not allocated to divisions ⁽²⁾	2 952	2 956
Additives	155	197	Non-operating assets	1 423	1 263
Additives excluding Water Treatments	184	181	Net assets of discontinued operations	914	917
Water Treatments ⁽¹⁾	(29)	16	Total assets	12 455	12 086
Colors	(10)	(29)	⁽¹⁾ The 1998 financial data for Water Treatments is presented for the nine-month period since April 1, 1998, the date of the Allied Colloids acquisition.		
Consumer Care	43	44	⁽²⁾ Shared net assets not allocated to divisions include the goodwill recognized in connection with the Allied Colloids acquisition.		
Corporate	(322)	(215)	See Glossary of Financial Terms for definitions of net assets, EBITDA, EBITDA margin and economic profit.		
Total Economic Profit	(134)	(3)	See Note to Consolidated Financial Statements		
Depreciation and amortization					
Additives	186	176			
Additives excluding Water Treatments	122	121			
Water Treatments ⁽¹⁾	64	55			
Colors	125	120			
Consumer Care	57	57			
Non-divisional depreciation and amortization	86	65			
Total depreciation and amortization	454	418			

(in millions of Swiss francs, except share and per share data)

The Company's reportable segments are divisions that develop, manufacture and market different products and services. They are managed separately because each division has different technology and marketing strategies.

The accounting policies of the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements. The Company evaluates the performance of its reportable segments based on operating income before restructuring and special charges, corporate related items, and certain other net expenses not allocated to reportable segments. All intersegment sales between subsidiaries are based on market prices.

As of December 1999, the Company had three reportable segments: Additives, Colors, and Consumer Care. In December 1999, the Company announced the sale of its Performance Polymers business and has recorded it as a discontinued operation and therefore, excluded it from the segment data. (See Note 3.)

Additives, under a program to realign the Company's businesses, was enlarged through the addition of the Company's water treatments operations. Water Treatments is now one of the business units within the Additives division. This strategic realignment is intended to better utilize resources in order to grow the business and to achieve further synergies. Supplemental financial data for the Additives business excluding Water Treatments, and the Water Treatments business unit has been presented in the business segment data to provide a link to the previous divisional reporting structure.

In the second half of 1998, the Company, as part of a business realignment, created the "Colors" division to strengthen the focus on the Company's core competencies in colors for industrial and consumer applications. This new division was established through the combination of the Company's Inks, Paints and Plastics business unit (principally the Company's former Pigments division) and the Textiles business unit (principally the Company's former Textile Dyes division excluding the fabric finishing business which was transferred to the Consumer Care division).

The segment data for 1998, as previously reported, has been restated to conform with the effects of the above mentioned divisional realignments. The totals for all captions are equal to the historical figures as previously reported, since the restated data does not retroactively reflect any potential impact on sales or costs.

Additives are ingredients added in small quantities to polymers, fibers, coatings, lubricants, printing inks and photographic films and papers. The division's products prevent aging and corrosion and help improve appearance, durability and performance of finished goods, including automobiles, high-tech products and household appliances. The division's Water Treatments business offers products to help clean industrial and municipal effluent and to improve the efficiency of paper, mineral and oil processing.

The division Colors provides colors to the inks, paints, plastics, textiles and fibers industries. Among its products are dyes and pigments for printing inks, automotive, industrial and decorative paints, plastics, digital printing, and for cotton, polyester, wool and polyamide. The division provides rich hues and long-lasting colors for clothing, curtains, carpets, automobiles, children's toys, magazines and other items.

The Consumer Care division develops, manufactures and markets products such as whiteners, antimicrobials, specialty colors and fabric processing and finishing as well as home and personal care specialties. The division's products enhance the look, feel and performance of goods ranging from home and personal care products to paper and textiles.

The following table shows the link between the previously reported Pigments division (now principally the Inks, Paints and Plastics business unit) and Textile Dyes division (now principally the Textile business unit) to the Colors division:

Year ended December 31, 1999	Pigments	Textile Dyes	Colors
Sales	1 310	1 086	2 396
Operating income	171	67	238
EBITDA	249	114	363

Year ended December 31, 1998	Pigments	Textile Dyes	Colors
Sales	1 231	1 113	2 344
Operating income	200	14	214
EBITDA	261	74	335

See Glossary of Financial Terms

See Notes to Consolidated Financial Statements

Geographic Data

(in millions of Swiss francs, except share and per share data)

Net Sales to Customers	1999	1998	Long-lived Assets	1999	1998
Europe			Europe		
Germany	606	597	Germany	453	496
United Kingdom	385	370	United Kingdom	738	739
Italy	358	347	Italy	135	136
France	326	325	France	152	158
Rest of European Union	865	818	Rest of European Union	84	94
Switzerland	79	70	Switzerland	697	746
Rest of Europe	207	201	Rest of Europe	1	2
Total Europe	2 826	2 728	Total Europe	2 260	2 371
Western Hemisphere			Western Hemisphere		
United States of America	1 882	1 776	United States of America	1 185	1 054
Canada	231	179	Canada	9	16
Central America	206	181	Central America	104	85
South America	301	308	South America	35	47
Total Western Hemisphere	2 620	2 444	Total Western Hemisphere	1 333	1 202
Eastern Hemisphere			Eastern Hemisphere		
Japan	483	379	Japan	33	26
Region China	318	238	Region China	202	182
Rest of Asia	570	464	Rest of Asia	50	36
Australia and New Zealand	161	129	Australia and New Zealand	26	25
Africa and Middle East	266	250	Africa and Middle East	10	11
Total Eastern Hemisphere	1 798	1 460	Total Eastern Hemisphere	321	280
Total net sales to customers	7 244	6 632	Total long-lived assets	3 914	3 853

Net sales to customers are based on the final destination of the sale.

Long-lived assets represents property, plant and equipment, net and are shown by the location of the assets.

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

1. Summary of significant accounting policies**Company operations**

Ciba Specialty Chemicals Holding Inc. and its wholly owned and majority-owned subsidiaries (the "Company") is a global leader in the discovery and manufacture of innovative materials that provide color, performance and care for plastics, coatings, fibers, fabrics and other products. The Company's products and services are also used to provide clean water and to treat industrial and municipal effluent.

Basis of consolidation and presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). The assets, liabilities and results of operations of entities in which the Company has a controlling interest have been consolidated. Investments in which the Company exercises significant influence, but which it does not control (generally 20-50% ownership interest) are accounted for under the equity method of accounting. Investments in which the Company has less than a 20% ownership interest are accounted for under the cost method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from those estimates.

Foreign currency translation

The Company's financial statements are prepared in Swiss francs (CHF million). For most operations outside Switzerland, where the functional currency is the local currency, income, expense and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at period-end exchange rates. The translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity. The financial statements of subsidiaries that operate in economic environments that are highly inflationary maintain financial information for reporting purposes in U.S. dollars or Swiss francs and include gains and losses from translation in income.

Cash equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Short-term investments

Short-term investments consist of securities that are traded in highly liquid markets. Since they are held for the purpose of investing liquid funds and are readily convertible to cash, they are classified as trading securities and are carried at fair value. Gains and losses are recorded in other financial income (expense) in the Consolidated Statements of Income.

Financial instruments

The Company enters into derivative financial instruments in the ordinary course of business to mitigate its exposure to adverse changes in foreign exchange rates and manage its interest rate exposures. Various risk exposures arising from existing assets and liabilities, from future transactions in which the Company is firmly committed and from future anticipated transactions are assessed and managed centrally by the Company's treasury function based on the Company's aggregate exposure. Under the Company's written hedging policy, treasury management continuously monitors and reports the results of its risk management programs to senior management, and may choose to partially or fully hedge exposures. The Company's hedging policy does not provide for the hedging of all positions on a permanent basis in cases when it is perceived that the costs outweigh the risks. The Company's risk management policies do not permit the utilization of financial instruments for trading purposes.

A substantial portion of the Company's cash flows is denominated in foreign currencies. To hedge the balance sheet and revenue exposures associated with diminution in value of foreign currency cash flows, the Company primarily utilizes foreign exchange currency forwards, swaps and options contracts. In order to lower the overall hedging costs, the Company may issue financial instruments on existing or future positions. Gains and losses related to qualifying accounting hedges of existing assets or liabilities, firm commitments or anticipated transactions are deferred and are recognized in income or adjustments of carrying amounts when the hedged transaction occurs. Gains and losses on instruments that do not qualify as accounting hedges are recognized in other financial income (expense).

For interest rate swaps, the differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements in interest expense.

Accounts receivable

Accounts receivable are recorded at their net realizable value after deducting an allowance for doubtful accounts. Such deductions reflect either specific cases or estimates based on historical evidence of collectibility. This also includes an allowance for country specific transfer risks.

Inventories

The Company values its inventories at the lower of cost, determined principally on a first-in, first-out (FIFO) method, or market. Costs include all costs of production, including applicable portions of plant overhead. Allowances are made for obsolete and slow-moving inventory.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from approximately 20 to 50 years for buildings, 10 to 20 years for machinery and equipment, and 3 to 10 years for office furniture and fixtures and other equipment. The Company assesses its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

Property, plant and equipment acquired through finance lease arrangements are recorded as assets at their fair value at the date of acquisition and depreciated over the shorter of the useful life of the asset or the lease term. The corresponding obligation is shown as a liability in the Consolidated Balance Sheets.

Goodwill and intangible assets

Goodwill and purchased intangible assets are capitalized and amortized on a straight-line basis over the estimated periods to be benefited. This amortization period is determined individually for each asset and can range from 5 to 40 years. The Company assesses its goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the goodwill or the intangible asset, a loss is recognized for the difference between the fair value and carrying value of the goodwill or the intangible asset.

Financial investments and other assets

Financial investments and other assets comprise primarily investments in and loans to equity affiliates, investments in unconsolidated companies (less than 20% ownership) and prepaid pension costs.

The investments in unconsolidated companies are accounted for as available-for-sale securities and are recorded at fair value with unrealized gains or losses, net of tax included in accumulated other comprehensive income of shareholders' equity.

Income taxes

Provision for income taxes has been determined using the comprehensive liability method and consists of income taxes paid or payable plus the change in deferred taxes for the current year. Deferred taxes represent the estimated future tax consequences of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Provision has been made for income taxes on the earnings of foreign operations that are expected to be remitted to the parent company. No accruals are made for unremitted earnings of operations that are intended to be reinvested indefinitely or that can be remitted substantially free of tax. The provision for income taxes includes income taxes from earnings of equity affiliates.

Environmental compliance and expenditures

The measurement of environmental liabilities is based on evaluation of currently available facts with respect to each individual site and considers factors such as existing technology, presently enacted laws and regulations and prior experience in remediation of contaminated sites. Environmental operations and maintenance as well as remediation costs are accrued when environmental assessments and the need for remediation are probable and the costs can be reasonably estimated. Any potential insurance recoveries are not offset against the liability. Actual costs to be incurred at identified sites in future periods may vary from the estimates given the inherent uncertainties in evaluating environmental exposures.

Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible debt, were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Company.

New Accounting Standards

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" which replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. This statement expands the previous accounting definition of derivatives to include embedded derivatives and many commodity contracts. Under the statement, all derivatives are recorded in the balance sheet as either an asset or liability and are measured at their fair market values. Changes in the derivative's fair value have to be recognized in income unless specific hedge accounting criteria are met, in which case the effect is recorded in accumulated other comprehensive income in shareholders' equity. In 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments – Deferral of the Effective Date of FASB Statement No. 133" which delayed the effective date of SFAS No. 133 to fiscal years starting after June 15, 2000. The Company will adopt this statement as of January 1, 2001 and has not yet determined what, if any, impact the adoption of this statement will have on the Company's net income or total shareholders' equity.

Reclassifications

Certain reclassifications to the 1998 financial statement and related footnote amounts have been made to conform with the 1999 presentation.

2. Exchange rates of principal currencies

		Statement of income average rate		Balance sheet year-end rates	
		1999	1998	1999	1998
1	U.S. dollar (USD)	1.50	1.45	1.58	1.38
1	British pound (GBP)	2.42	2.40	2.55	2.30
1	Euro ⁽¹⁾ (EUR)	1.60	–	1.60	–
100	German marks (DEM)	81.82	82.37	81.92	81.84
100	French francs (FRF)	24.40	24.57	24.43	24.42
1000	Italian lira (ITL)	0.83	0.84	0.83	0.83
100	Japanese yen (JPY)	1.32	1.11	1.53	1.18

⁽¹⁾ On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing sovereign currencies and adopted the Euro as their new common currency. The Euro trades on currency exchanges and the legacy currencies will remain legal tender in the participating countries for a transition period between January 1, 1999 and January 1, 2002. At January 1, 1999, the Swiss franc exchange rate to the Euro was 1.607.

(in millions of Swiss francs, except share and per share data)

3. Acquisitions and divestitures

Divestment of Performance Polymers business

On December 14, 1999, the Company announced that the Board of Directors approved the signing of an agreement to sell its Performance Polymers division to Morgan Grenfell Private Equity (MGPE), the private equity arm of Deutsche Bank AG, for a sales price of approximately CHF 1 845 million, less the assumption of net debt of CHF 111 million. The transaction is expected to be completed in the first quarter of 2000, subject to certain conditions, as defined in the agreement, including obtaining regulatory approvals. The Company expects to record a net gain on the sale, after consideration of the Performance Polymers operating results from January 1, 2000, through the anticipated closing date, transaction related taxes and costs associated with selling the business.

The Performance Polymers division produces epoxy resins and other high performance thermosets that provide durability, extraordinary strength and resistance to heat and corrosion. Performance Polymers supplies its products to the coatings, aircraft, electrical and electronic industries, among others.

The results and the financial position of the Performance Polymers business, which represents substantially all of the Performance Polymers division, have been reported as discontinued operations in the Consolidated Financial Statements and Notes in 1999 and 1998. The results of Performance Polymers include revenues and expenses that are directly associated with the Performance Polymers business, but do not include an allocation of the Company's interest expense or unallocated corporate general and administrative expenses.

Summarized financial information of the discontinued Performance Polymers business is presented in the following tables:

Year ended December 31,	1999	1998
Net sales	1 729	1 791
Operating income (loss) before income taxes and minority interest	131	(17)
Provision (benefit) for income taxes	45	(5)
Minority interest	1	(1)
Income (loss) from discontinued operations, net of tax	87	(13)
December 31,	1999	1998
Net assets		
Accounts receivable, net	308	286
Inventories	278	325
Prepaid and other current assets	62	55
Accounts payable	(179)	(120)
Accruals and other current liabilities	(143)	(203)
Net current assets of discontinued operations	326	343
Property, plant and equipment, net	536	542
Goodwill, other intangibles and other assets, net	157	131
Financial investments	24	19
Other liabilities and deferred income taxes	(129)	(118)
Net long-term assets of discontinued operations	588	574
Net assets of discontinued operations	914	917

Purchase of Allied Colloids

On April 1, 1998, the Company completed the acquisition of all outstanding common shares of Allied Colloids Group plc (hereinafter referred to as "Water Treatments"), a leading company in the water treatment additives field for CHF 3 615 million, including acquisition costs of CHF 110 million. The consideration was financed through the issuance of debt. The acquisition was recorded under the purchase method of accounting and accordingly, Water Treatments' operations are included in the accompanying Consolidated Statements of Income from April 1, 1998. The fair value assigned to the business acquired was CHF 4 509 million and liabilities assumed were CHF 894 million, including CHF 485 million of assumed debt. Goodwill of CHF 2 279 million was recorded, which is being amortized over 33 years. In addition, based on an independent appraisal, the Company allocated CHF 1 012 million of the acquisition cost to acquired in-process research and development projects, which represented the estimated fair market values related to these projects at the date of acquisition. Standard valuation procedures and techniques were utilized in determining the fair market value of each intangible asset. The developmental technologies had no alternative future uses. As these projects have not reached technological feasibility and alternative future uses did not exist, the costs were expensed at the acquisition date and are included in restructuring and special charges in the accompanying Consolidated Statements for the year ended December 31, 1998.

The following unaudited pro forma results were prepared under the assumption that the transaction occurred at January 1, 1998. The pro forma information is presented after giving effect to certain adjustments such as additional depreciation expense as a result of the step-up in the basis of fixed assets, additional amortization expense as a result of goodwill, increased interest expense on acquisition debt, and related tax effects. These pro forma financial results are not necessarily indicative of the results of operations that would have been obtained had the Company acquired Water Treatments effective at the beginning of 1998.

Year ended December 31 (unaudited),	1998 ⁽¹⁾
Sales	6 937
Income from continuing operations	266
Income from discontinued operations	(13)
Net income	253
Basic and diluted earnings per share:	
Continuing operations	4.02
Discontinued operations	(0.20)
Net income	3.82

⁽¹⁾ The pro forma income from continuing operations and net income in 1998 excludes the CHF 1 012 million write-off of in-process research and development projects. Income from continuing operations, discontinued operations and net income include net restructuring and special charges of CHF 39 million (CHF 28 million after taxes), CHF 95 million (CHF 68 million after taxes) and CHF 134 million (CHF 96 million after taxes), respectively. Excluding these charges, pro forma income from continuing operations, discontinued operations and net income would have been CHF 294 million, CHF 55 million and CHF 349 million, respectively. Earnings per share would have been CHF 4.43, CHF 0.83 and CHF 5.26, respectively.

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

Other acquisitions and divestments

On March 15, 1999, the Company sold its 30% interest in Cerdec AG for net cash proceeds of DEM 85 million (CHF 70 million), resulting in a pre-tax gain of CHF 39 million or CHF 37 million after tax.

Effective January 1, 1998, the Company and Witco Corporation (Witco) exchanged, in a one-for-one transaction, the Additives division's PVC heat stabilizer business for Witco's epoxy systems and adhesives business. The transaction was accounted for as a sale and a purchase. The business acquired was integrated into the Performance Polymers division and is included in discontinued operations in the accompanying consolidated financial statements. The resulting goodwill is

being amortized over 20 years. The Company's non-cash gain on the assets sold is included in restructuring and special charges in the accompanying Consolidated Statements of Income (see Note 9).

	1999	1998
4. Inventories		
Raw materials	208	255
Work in process and finished goods	1 530	1 540
Allowance for obsolete and slow moving inventory	(78)	(67)
Total	1 660	1 728

5. Property, plant and equipment

	Land 1999	Buildings 1999	Machinery and equipment 1999	Construction in progress 1999	Total 1999	Total 1998
Cost at January 1	123	1 788	5 288	319	7 518	6 928
Additions		5	66	196	267	396
Retirements/disposals	(2)	(33)	(194)	(11)	(240)	(105)
Changes in consolidation scope		(24)	(129)	58	(95)	526
Currency adjustments	11	101	324	41	477	(226)
Other	(1)	28	167	(198)	(4)	(1)
Cost at December 31	131	1 865	5 522	405	7 923	7 518
Accumulated depreciation at January 1		(780)	(2 885)		(3 665)	(3 474)
Depreciation		(53)	(324)		(377)	(361)
Accumulated depreciation on retirements/disposals		20	162		182	66
Changes in consolidation scope		(1)	38		37	39
Currency adjustments		(31)	(150)		(181)	66
Other		(1)	(4)		(5)	(1)
Accumulated depreciation at December 31		(846)	(3 163)		(4 009)	(3 665)
Net book value at December 31	131	1 019	2 359	405	3 914	3 853

The insurance value of the property, plant and equipment was approximately CHF 10 643 and CHF 9 980 at December 31, 1999 and 1998, respectively.

6. Goodwill and other intangible assets	1999	1998
Goodwill	2 401	2 164
Other intangibles	77	45
Less accumulated amortization	(186)	(90)
Total	2 292	2 119

7. Financial instruments and investments**Financial instruments (excluding derivatives)**

Financial assets and liabilities with book values approximating fair market value due to their short-term nature include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term debt. The fair value of financial investments for which quoted market prices are available are based on such market prices. Financial investments for which it is not practical to estimate fair value as quoted market prices do not exist are reflected at their book value. Fair value of long-term debt is based on the current rates at which similar loans would be made to borrowers with similar credit ratings.

The following table presents the book value and the estimated fair value of financial investments and long-term debt at December 31, 1999 and December 31, 1998:

	1999		1998	
	Book value	Fair value	Book value	Fair value
Financial investments				
Investment in equity affiliates – Hexcel ⁽¹⁾	261	158	249	208
Investments in other equity affiliates	302	302	305	305
Investments in unconsolidated subsidiaries	37	37	29	29
Total financial investments	600	497	583	542
Long-term debt, including current portion	4 268	3 975	3 654	3 655

⁽¹⁾ Due to the continued weakness in the equity market of the aerospace and defense industry in the U.S., the Company's investment in Hexcel exceeded the quoted market value as of December 31, 1999. Management continues to believe this situation to be temporary.

(in millions of Swiss francs, except share and per share data)

The following table presents summarized financial information on a 100% basis for the companies accounted for as investments in equity affiliates. The most significant of these are: Hexcel Corporation (49.3% and 49.7% equity ownership at December 31, 1999 and 1998, respectively), which is shown separately due to its size, and CIMO Compagnie Industrielle de Monthey SA (50%), Daihan Swiss Chemical Corp. (50%), TFL Ledertechnik GmbH & Co. KG (50%) and Musashino-Geigy Ltd. (50%), all of which have maintained the same level of investment in 1999 and 1998. Also included in the 1998 figures is the Company's former 30% investment in Cerdec AG which was sold during 1999 (see Note 3).

1999	Hexcel	Other	Total
Sales	1 770	687	2 457
Income before taxes	(25)	45	20
Net income	(25)	31	6
Total assets	2 074	1 037	3 111
Shareholders' equity	434	572	1 006

1998	Hexcel	Other	Total
Sales	1 508	1 243	2 751
Income before taxes	148	44	192
Net income	98	22	120
Total assets	1 919	1 860	3 779
Shareholders' equity	413	629	1 042

The income from earnings of equity affiliates of CHF 15 million (CHF 93 million in 1998) are shown before taxes as a separate line item in the operating income section of the Consolidated Statements of Income. The related income tax provision of CHF 6 million (CHF 34 million in 1998) is included in the Company's provision for income taxes.

The investment in Hexcel is being recorded using a one quarter time lag. The Company's investment includes its share of Hexcel's shareholders' equity and USD 40 million in 1999 (1998: USD 43 million), relating to the remaining net goodwill which originated at the date of acquisition. In 1999, the Company recognized CHF (17) million as its share of Hexcel's loss (1998: CHF 72 million income) included in the line "Income from earnings of equity affiliates" and a credit of CHF 1 million (provision of CHF 24 million in 1998) as its share of the related Hexcel income taxes in the line "Provision for income taxes" in the accompanying Consolidated Statements of Income.

Derivative instruments

All derivative financial instruments are valued based upon quoted market prices or market prices for instruments with similar terms and maturities. The following table presents the book value, the estimated fair values and notional principal amount of derivative instruments at December 31, 1999 and December 31, 1998:

1999	Notional book value	Fair value	Principal amount ⁽¹⁾
Foreign currency forward contracts	(2)	(1)	76
Foreign currency options contracts	(3)	(3)	455
Foreign currency swaps	5	6	1 145
Interest rate contracts	1	(24)	1 724

1998	Notional book value	Fair value	Principal amount ⁽¹⁾
Foreign currency forward contracts	(7)	(7)	62
Foreign currency options contracts	2	2	1 086
Foreign currency swaps	–	(21)	649
Interest rate contracts	–	–	424

Bracketed amounts are liabilities.

⁽¹⁾ The notional values of derivative instruments at year end provide an indication of the extent of the Company's involvement in such instruments, but do not represent exposure to market risks. The amounts indicated are gross values and include closed transactions that had not matured at the balance sheet date.

Foreign exchange currency forwards, swaps and options are mainly used to hedge existing assets and liabilities, firm commitments and anticipated transactions denominated in foreign currencies (principally U.S. dollars, Euros, British pounds, Australian dollars and Japanese yen). The Company has entered into currency contracts to cover foreign exchange risks on certain anticipated foreign currency transactions relating to sales and purchase transactions expected to occur within a period of one year. The premiums associated with purchased option contracts that hedge qualifying anticipated transactions are generally amortized over the lives of the options and are not material to the Company's results. For purchased options that hedge anticipated transactions which do not qualify for hedge accounting, gains and losses are recorded in net income as they occur on a mark-to-market basis. All written options are marked to market monthly and are not material to the Company's results.

The Company uses a broad range of financial instruments (forwards, swaps, options bought and sold) as part of its program to manage the fixed and floating interest rate mix of the total debt portfolio and related overall cost of borrowing. The Company issues debt, using the most efficient capital markets and products, which can result in a currency or interest rate mismatch with the underlying assets. Interest and currency rate differentials accruing under these contracts are recognized over the life of the contracts.

The Company has procedures to monitor the credit exposure amounts and manages exposure to counter-party credit risk through specific minimum credit standards and diversification of counter-parties. The counter-parties to financial instruments are financial institutions with a minimum 'A' credit rating and with significant experience with such instruments.

See also Note 15 for a discussion of the accounting for the hedging and related administrative costs of approximately CHF 51 million that were paid in 1997 to a major bank to supply all necessary equivalent shares of the Company's common stock in connection with the stock based compensation Leveraged Executive Asset Plan.

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

8. Accruals and other current liabilities	1999	1998
Payroll and employee benefits	193	115
Environmental remediation and compliance	56	62
Restructuring	44	188
Pension and postretirement benefits	24	17
Deferred income taxes	66	61
Other	438	506
Total	821	949

9. Restructuring and special charges**Continuing operations**

In 1998, the Company recorded net restructuring and special charges of CHF 1 052 million. This charge included CHF 1 012 million for the write-off of acquired in-process research and development associated with the acquisition of Allied Colloids (see Note 3) and a non-cash accounting gain from the exchange of a business of CHF (75) million and other minor amounts. The remaining restructuring and special charges of CHF 115 million related to the strategic realignment of the Company's business which included the formation of the Colors division, the integration of Water Treatments, and the completion of the supply chain creation project commenced in 1996.

Severance cost for approximately 450 full-time equivalents ("FTEs") included in the 1998 restructuring charges resulted from the elimination of positions in various locations of the Company's worldwide operations principally in the administration, sales and marketing functions.

In 1999, the Company implemented a program in its Water Treatments business unit to eliminate approximately 250 FTEs, principally in the production, sales and administration areas. This program was completed in 1999.

As of December 31, 1999, under all outstanding employee reduction programs, a total of 535 FTEs have been terminated. The remaining terminations are expected to be completed in 2000.

The costs and activity associated with the restructuring and special charges is summarized in the following table:

1999	Severance costs	Other costs	Total
Balance at January 1	120	68	188
Current year programs ⁽¹⁾	—	—	—
Acquisition related	—	—	—
Amounts utilized ⁽²⁾	(85)	(59)	(144)
Balance at December 31	35	9	44

1998	Severance costs	Other costs	Total
Balance at January 1	173	103	276
Current year programs	62	53	115
Acquisition related	14	56	70
Amounts utilized ⁽²⁾	(129)	(144)	(273)
Balance at December 31	120	68	188

⁽¹⁾ Included in 1999 current year programs is an addition related to severance cost of CHF 10 million offset by a release of excess reserves from prior year programs of CHF 10 million.

⁽²⁾ Includes currency adjustments.

Management believes that the remaining restructuring provision is adequate to complete all of its programs.

Discontinued operations

In 1998, the Company incurred restructuring and special charges of CHF 95 million related to the Performance Polymers division's profit recovery program. Under this program, the Performance Polymers division instituted several actions to restore profitability. The program had three main objectives which were cost reductions, raw material savings and net current asset reductions through improved asset management. As part of the cost reduction program, the Performance Polymers division incurred CHF 59 million for separation payments to be made to approximately 650 FTEs, whose positions will be eliminated, principally in the administration, sales and marketing functions. The remaining charges relate to other costs incurred for the reorganization of administration functions, the completion of the supply chain creation project commenced in 1996, and systems integration.

As of December 31, 1999, under all outstanding Performance Polymers employee reduction programs, a total of 610 FTEs have been terminated at a cost of approximately CHF 52 million. The remaining terminations are expected to be completed in 2000.

The provision related to Performance Polymers restructuring programs of CHF 47 million in 1999 and CHF 98 million in 1998 are included in net current assets of discontinued operations in the accompanying Consolidated Balance Sheets. The remaining 1999 provision is expected to be utilized in the first quarter 2000.

Management believes that the remaining restructuring provision is adequate to complete all of its programs.

10. Short-term debt

	1999	1998
Revolving loan agreement (multicurrency)	474	413
Bank overdrafts	80	251
Loans	386	522
Commercial paper	48	550
Other	183	163
Current portion of long-term debt	3	6
Total	1 174	1 905

On January 21, 1998, the Company entered into a CHF 4 000 million multicurrency revolving loan agreement to finance the acquisition of Allied Colloids. During 1998, the Company issued long-term debt and, in view of these debt issuances, reduced the available commitments under the revolving loan agreement to CHF 800 million. On July 12, 1999, the Company refinanced the multicurrency revolving loan agreement, reducing the available commitment to CHF 600 million. A commitment fee of 0.10% per annum is paid on the average unused facility.

Under the multicurrency revolving loan agreement, the Company had CHF 474 million (USD 300 million) and CHF 413 million (USD 300 million) outstanding at December 31, 1999 and 1998, respectively. The loan bears interest at LIBOR plus 21.5 basis points (LIBOR plus 22.5 basis points in 1998) and expires on July 11, 2002.

In July 1998, the Company implemented a USD 1 000 million Commercial Paper program in the United States. At December 31, 1999 and 1998, CHF 45 million (USD 28 million) and CHF 550 million (USD 400 million) respectively, was outstanding under this program. The program is secured by a USD 500 million standby credit facility.

(in millions of Swiss francs, except share and per share data)

The CHF 300 million multicurrency standby facility with a major Swiss bank, entered into in 1998, was renewed on July 1, 1999. This facility expires on June 30, 2000, and bears interest at LIBOR plus 20 basis points. A facility fee of 0.08% per annum is paid on the total amount. At December 31, 1999 and 1998, no borrowings were outstanding under this facility.

The weighted average interest rate for short-term debt (excluding current portion of long-term debt) calculated at December 31, 1999 and 1998, was 6.7% and 7.3%, respectively. At December 31, 1999 and 1998, unused short-term credit lines totaled approximately CHF 1 388 million and CHF 1 195 million, respectively.

11. Long-term debt		1999	1998
Bonds and Euro Medium-Term Notes		3 071	2 609
Convertible bonds		1 032	885
Amounts owed to credit institutions		21	5
Other long-term debt		144	155
		4 268	3 654
Less: current portion of long-term debt		3	6
Total long-term debt		4 265	3 648
Bonds and Euro Medium-Term Notes			
CHF 1 000	3.25% Straight Bonds, principal due 2008	1 012	1 014
CHF 300	3.25% Straight Bonds, principal due 2009	304	–
GBP 300	6.50% Euro Medium-Term Note, principal due 2013	766	691
USD 300	6.125% Euro Medium-Term Note, principal due 2003	457	409
DEM 300	4.875% Euro Medium-Term Note, principal due 2005	250	250
USD 178	U.S. pollution control and industrial development bonds, principal due between 2008 and 2028 (weighted average interest rate of 4.07%)	282	245
Total Bonds and Euro Medium-Term Notes		3 071	2 609

In 1997, the Company entered into a USD 2 000 million Euro Medium-Term Note program which allows the Company to issue multicurrency unsecured, unsubordinated notes with a minimum maturity of one month and at fixed, floating or indexed interest rates. At December 31, 1999, the Company had borrowed CHF 1 473 million (CHF 1 350 million in 1998) under this program.

In June 1998, the Company issued a USD 300 million Euro Medium-Term Note, with a 6.125% U.S. dollar fixed interest rate. In connection with the issuance of this Note, the Company entered into an interest and principal currency swap that effectively established a fixed principal amount of GBP 184 million with a 6.76% fixed interest rate over the term of the Note. In December 1998, the Company entered into an interest rate swap on the GBP 184 million debt whereby the Company swapped its 6.76% fixed interest rate for a floating rate based on the Swiss franc London Interbank Offered Rate plus 4.38%. The interest rate swap agreement matures at the same time as the related debt.

In July 1998, the Company issued USD 687 million unsecured, unsubordinated convertible bonds, due 2003, with a 1.25% fixed interest rate. The bonds are convertible into the Company's common stock from September 2, 1998 to July 10, 2003 at a conversion price of CHF 254.14 per share. At December 31, 1999 and 1998, the Company had 3 783 582 shares of treasury stock reserved for the potential conversion.

The annual maturities of long-term debt outstanding at December 31, 1999 are as follows: 2000 CHF 3 million; 2001 CHF 29 million; 2002 CHF 6 million; 2003 CHF 1 682 million; 2004 CHF 5 million; 2005 and thereafter CHF 2 595 million.

12. Income taxes

The provision for income taxes in 1999 and 1998 from continuing operations consists of the following:

	1999	1998
Current provision	82	65
Deferred provision	35	37
Total provision for income taxes	117	102

The Company is incorporated in Switzerland but operates in numerous countries with differing tax laws and rates. The income before income taxes and provision for income taxes are generated primarily outside of Switzerland. Therefore, the weighted average expected tax rate (computed by multiplying the statutory rate applicable to each local subsidiary's income or loss) may vary between periods reflecting the income or losses generated in each country. The main factors causing the effective tax rate to differ from the expected tax rate are:

	1999 %	1998 %
Expected tax rate	30	(30)
Non-deductible items	7	56
Tax free income	(3)	(16)
Income taxed at reduced rates	(2)	(1)
Changes in valuation allowance	(1)	2
Other	2	4
Effective tax rate	33	15

"Non-deductible items" includes the tax effect of amortization of goodwill. In 1998, also included, is the tax effect of acquired in-process research and development costs (see Note 3).

"Tax free income" in 1998 includes primarily the tax effect of the non-cash accounting gain on the exchange of a business (see Note 3). Excluding these items, the Company's effective tax rate in 1999 and 1998 would have been 29%.

In 1999, "Other" includes approximately CHF 4 million of tax expense or 1% reflecting the effect of the reduction in the German statutory tax rates on year-end 1998 net deferred tax asset balances of the Company's German subsidiaries.

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

The significant components of activities that gave rise to deferred tax assets and liabilities on the balance sheet at December 31, 1999 and 1998, were as follows:

	1999	1998
Deferred tax assets:		
Pensions and other employee compensation	104	76
Inventory	56	40
Restructuring and special charges	24	58
Environmental reserves	287	259
Tax loss carryforwards	138	123
Other	64	57
Gross deferred tax assets	673	613
Valuation allowance	(180)	(145)
Net deferred tax assets	493	468
Deferred tax liabilities:		
Property, plant and equipment	(389)	(399)
Other	(193)	(127)
Gross deferred tax liabilities	(582)	(526)
Net deferred tax liabilities	(89)	(58)
Included in:		
Prepaid and other current assets	175	200
Other assets	123	103
Accruals and other current liabilities	(66)	(61)
Deferred income taxes	(321)	(300)
Net deferred tax liabilities	(89)	(58)

The Company believes the majority of deferred tax assets will be realized because of the depletion of certain significant tax deductions and anticipated future taxable income resulting from the Company's operations. Valuation allowances have been established for certain tax loss carryforwards and certain long-term deferred tax assets of the Company.

For tax return purposes, the Company has available tax loss carryforwards of approximately CHF 445 million, of which CHF 61 million will expire in the next five years and CHF 159 million will expire between five and fifteen years. The remaining carryforwards do not expire.

At December 31, 1999, unremitted earnings of subsidiaries outside of Switzerland of approximately CHF 300 million were deemed to be permanently invested. No deferred tax liability has been recognized with regard to the remittance of such earnings as it is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to Switzerland.

	1999	1998
13. Other liabilities		
Environmental remediation and compliance	733	691
Pension and postretirement benefits	592	610
Other	189	154
Total	1 514	1 455

14. Shareholders' equity

On April 20, 1998, the Company's shareholders approved authorized and conditional increases in the share capital of the Company. The approval allows for the issuance of a maximum of 10 million registered shares with a par value of CHF 10 per share. While 2 million shares are reserved for employee stock option plans, 4 million are primarily reserved for an issuance under future convertible bonds and similar debt instruments. Another 4 million shares may be issued until April 20, 2000 without a restriction.

The Company sold 1 679 shares in 1999 and 366 162 shares in 1998 of treasury stock at market prices. In 1998 the Company also sold 505 000 shares of treasury stock, purchased at the spin-off date at the par value of CHF 10, to the "Stiftung für Mitarbeiterbeteiligung der Ciba Spezialitätenchemie" (the Foundation for Employee Participation of Ciba Specialty Chemicals) for CHF 15 per share. In addition, in 1998, the Company purchased 806 915 shares at market prices.

15. Stock-based compensation plans

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. A description of the terms of the Company's plans are as follows:

LEAP – In March 1997, the Company established a one-time Leveraged Executive Asset Plan for key executives and non-executive Board members (participants) to promote share ownership. Under the LEAP, approximately 320 participants were given the right to purchase 288 400 shares of common stock of the Company at the market value at grant date for CHF 110 per share (equal to Global Offering Price). For each share purchased, four share options (total 1 153 600) were then granted to the participants. The participants will receive the market price increase from the grant date to the exercise date in equivalent shares of the Company's common stock. The rights generally vest over a three-year period and participants may exercise their rights monthly beginning on March 1, 2002 through March 11, 2005. As a result of terminations from the program, a total of 58 148 options (21 533 options in 1998) have been returned to the Company.

The Company paid a fee to a major bank to supply all necessary equivalent shares of the Company's stock to the participants when they are due. Therefore, independent of the prevailing future share price, the total cost of the LEAP program to the Company will not exceed the CHF 51 million hedging and related administration fee that was paid. Compensation expense is being recognized as this fee is being amortized over the three year vesting period.

CAPS – In 1997, the Company established a Capital Appreciation Performance Share Plan for key executives and non-executive Board members (participants). In accordance with the CAPS, participants are granted rights to receive shares of common stock of the Company in the event that the closing share price on any seven days up to August 2001 equals or exceeds CHF 264 per share (which is double the price at the initial grant date in August 1997). Under the program, five participants have been granted 8 192 rights in 1998 and 333 participants were granted 342 572 rights in 1997.

(in millions of Swiss francs, except share and per share data)

As a result of terminations from the program, a total of 26 820 rights (4 119 rights in 1998) have been returned to the Company resulting in a total of 323 944 rights outstanding at December 31, 1999 (346 645 in 1998). No compensation expense was recorded in 1999 or 1998, since the target price was not reached.

LTIP – In 1998, the Company established a Long-Term Incentive Plan which grants options to senior management and other employees. These options are restricted for three years following the date of grant. For grants made to participants in the United States, vesting is over three years; elsewhere vesting is at the date of grant. The options expire either 5 years or 10 years after the date of grant.

The following table summarizes option activity under the LTIP during 1999 and 1998:

	1999		1998	
	Weighted average exercise price	Options outstanding	Weighted average exercise price	Options outstanding
Balance at January 1	165	351 055	–	–
Options granted	113	521 088	165	351 055
Options canceled/ forfeited	152	(14 235)	–	–
Balance at December 31	134	857 908	165	351 055

The shares under options at December 31, 1999, were at the following exercise prices:

Weighted average exercise price	Number of outstanding options ⁽¹⁾	Weighted average remaining contractual life (in years)
113	517 488	6.1
165	340 420	4.1
	857 908	

⁽¹⁾ No stock options were exercisable at December 31, 1999.

Stock appreciation rights – In January 1998, the Company issued 68 500 stock appreciation rights to certain of its senior managers with an exercise price of CHF 165 which equals the market value of the common stock at grant date. These rights entitle the participants to receive the appreciation in the common stock's market value between grant date and exercise date in cash or under certain circumstances in common stock. These rights vest ratably over a three-year period and expire after 10 years from date of grant. As of December 31, 1999, 3 235 of the stock appreciation rights have been forfeited. In 1999 and 1998, no compensation expense was recognized under this plan.

LEXIP – In April 1998, the Company established a Long-term Executive Incentive Plan in which five participants were given the right to purchase 6 007 shares of common stock at the market value at grant date for CHF 183. For each share purchased, four stock options (total 24 028) were granted to the participants at market value. These options vest after four years and expire after seven years from date of grant. As of December 31, 1999, 12 560 of stock options have been forfeited. In 1999 and 1998, no compensation expense was recorded under this plan.

ESOP – In 1998, the Company established a plan which enables substantially all employees to annually purchase up to 20 shares of common stock at a price equal to 85% of the average market price, as defined in the plan (the Employee Share Ownership Plan). During 1999, 3 515 employees (1998: 7 404 employees) purchased 63 929 shares (1998: 126 324 shares) for which approximately CHF 6 million (1998: CHF 19 million) was paid to the Company. In 1999 and 1998, no compensation expense was recorded under this plan.

MAB – In 1998, the Company established a "Mitarbeiterbeteiligungsplan" (Employee Investment Plan) which grants annually to most Swiss employees (as an enhancement to their pension plan arrangements) the right to purchase 20 shares of common stock at CHF 15 per share (up to a maximum share price of CHF 200). The rights vest at the grant date and become exercisable at the date of the employees' retirement or termination. As of December 31, 1999, 223 800 rights (1998: 121 000 rights) have been granted and 35 160 (1998: 7 700) were exercised. In 1999 and 1998, CHF 10 million and CHF 19 million, respectively, of compensation expense was recorded under this plan.

Change in control and reserve of shares

Upon a change in control of the Company (defined as 20%, 30% or 50% of the total voting power, depending on the plan terms), the vesting and restriction periods for the plans stated above (if still current) will cease to apply and a cash or share payment for the value of the outstanding plans and related taxes and duties will be due to the participants.

To cover demands for future option plans that may be established in the next five years, the Company plans to purchase up to 5% of its common stock (exclusive of the 3.3 million shares purchased from Novartis AG in the spin-off). At December 31, 1999, the Company had 1.2 million shares of treasury stock reserved for issuance under the various stock based compensation plans.

Pro forma disclosure

The pro forma net income and earnings per share for 1999 and 1998 have been determined as if the Company had used the fair value method of accounting for its stock option grants and employee share ownership plan in accordance with the provisions of SFAS 123. The pro forma amounts presented below reflect the portion of the estimated fair value of awards granted in 1999 and 1998 based on the vesting or service period over which the awards are earned.

Year ended December 31,	1999	1998
Pro forma net income (loss)		
Continuing operations	224	(739)
Discontinued operations	87	(13)
Total	311	(752)
Pro forma (loss) earnings per share – basic		
Continuing operations	3.37	(11.15)
Discontinued operations	1.31	(0.20)
Total	4.68	(11.35)
Pro forma (loss) earnings per share – diluted		
Continuing operations	3.37	(11.15)
Discontinued operations	1.31	(0.20)
Total	4.68	(11.35)

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

The Company used the Black-Scholes model to value the stock options granted. The weighted-average assumptions used to estimate the value of the options included in the pro forma amounts and the weighted-average, estimated fair value of an option granted are as follows:

Year ended December 31,	1999	1998
Expected option lives in years	6.82	6.28
Expected volatility in %	40.29	33.61
Risk-free interest rate in %	2.06	2.41
Expected dividend yield in %	1.71	1.29
Weighted average fair value in CHF	42.91	52.68

16. Retirement benefits**Pension plans**

Employees receive and the Company funds pensions and retirement benefits in accordance with the applicable laws and customs in the countries where the Company operates. The Company has both contributory and non-contributory defined benefit and defined contribution plans.

Defined contribution plans:

In countries where employees are covered by defined contribution plans, contributions charged to income from continuing operations were CHF 13 million in 1999 and CHF 12 million in 1998.

Defined benefit plans

Benefits are generally based on years of service, levels of compensation or stated amounts for each year of service.

The components of net pension expense for the Company-sponsored defined benefit plans were:

	Pension benefits		Postretirement benefits	
	1999	1998	1999	1998
Major plans:				
Service cost	120	102	2	4
Interest cost	161	157	4	4
Expected return on plan assets	(216)	(205)	–	–
Amortization of prior service cost	–	9	(1)	(1)
Other (gains), losses and amortization	(35)	(43)	(4)	(13)
Pension expense major plans	30	20	1	(6)
Other plans	1	4	–	–
Total pension expense⁽¹⁾	31	24	1	(6)

⁽¹⁾ In connection with the sale of the Performance Polymers business, the pension benefits and postretirement benefits, liabilities and related assets for the active employees and certain retirees of the Performance Polymers business will be assumed by the purchaser. The components of pension expense and the components reconciling the changes in the projected benefit obligation, the changes in the fair value of assets, and the funded status have not been restated for amounts related to continuing and discontinued operations as no detailed information was available. An estimate of the prepaid (accrued) pension cost and pension expense allocable to the Performance Polymers business has been included in discontinued operations.

The interest cost of approximately CHF 26 million in 1999 and CHF 26 million in 1998 relating to unfunded plans in Germany has been included as interest expense in the accompanying Consolidated Statements of Income.

For the Company's major plans, the following table provides a reconciliation of the changes in the projected benefit obligation, the changes in the fair value of assets, and the funded status of the plans as of December 31, 1999 and 1998:

	Pension benefits		Postretirement benefits	
	1999	1998	1999	1998
Benefit obligation, beginning of year	3 094	2 652	79	80
Service cost	120	102	2	4
Interest cost	161	157	4	4
Participant contributions	25	26	–	–
Actuarial (gain) loss	101	27	(1)	2
Plan amendments	1	10	–	2
Change in consolidation scope	35	242	(17)	(4)
Benefits paid	(90)	(67)	(4)	(5)
Foreign currency translation	141	(56)	9	(4)
Other	–	1	1	–
Benefit obligation, end of year	3 588	3 094	73	79
Plan assets, beginning of year	3 284	2 813	–	–
Actual return on plan assets	391	329	–	–
Employer contributions	64	72	4	5
Participant contributions	25	26	–	–
Change in consolidation scope	11	181	–	–
Benefits paid	(90)	(67)	(4)	(5)
Foreign currency translation	177	(67)	–	–
Other	–	(3)	–	–
Plan assets, end of year	3 862	3 284	–	–
Funded status	274	190	(73)	(79)
Unrecognized net (gain) loss	(332)	(321)	(18)	(19)
Unrecognized prior service cost	(16)	(10)	(10)	(11)
Prepaid (accrued) pension cost⁽¹⁾	(74)	(141)	(101)	(109)

⁽¹⁾ Refer to footnote ⁽¹⁾ to the previous table.

Certain of the Company's pension plans have accumulated benefit obligations that exceed plan assets by CHF 485 million and CHF 426 million in 1999 and 1998, respectively. Those plans have aggregate accumulated benefit obligations of CHF 529 million and CHF 460 million and plan assets of CHF 44 million and CHF 34 million in 1999 and 1998, respectively. These unfunded plans are mainly in Germany, where in line with local practices, the Company has not funded the pension plans of its German subsidiaries. This results in accrued pension costs of approximately CHF 474 million in 1999 and CHF 456 million in 1998.

(in millions of Swiss francs, except share and per share data)

The weighted average key actuarial assumptions used to compute the benefit obligations were as follows:

	Pension benefits		Postretirement benefits	
	1999	1998	1999	1998
Discount (interest rate)	4.9%	5.6%	7.4%	6.7%
Rate of increase in compensation levels	2.8%	3.3%	n.a.	n.a.
Expected long-term rate of return on plan assets	6.4%	6.6%	n.a.	n.a.

The healthcare cost trend rate is assumed to decrease to an ultimate trend rate of 5.0% in 2004. A 1% annual increase in the assumed healthcare cost trend rate would increase the 1999 accumulated postretirement benefit obligation by approximately CHF 9 million and the annual postretirement benefit cost by approximately CHF 1 million. A 1% annual decrease in the assumed healthcare cost trend rate would decrease the 1999 accumulated postretirement benefit obligation by approximately CHF 7 million and the annual postretirement benefit cost by approximately CHF 1 million.

The market value of the Company's shares held by its various pension plans as of December 31, 1999 and 1998 were approximately CHF 47 million and CHF 46 million, respectively.

Number of personnel and personnel expenses

The Company employed in its continuing operations 20 117 personnel at December 31, 1999 and 21 148 at December 31, 1998. The Company's salaries and wages, including social charges in its continuing operations were CHF 1 810 million in 1999 and CHF 1 856 million in 1998.

The Company employed in its discontinued operations 3 072 personnel at December 31, 1999 and 3 308 at December 31, 1998. The Company's salaries and wages, including social charges in its discontinued operations were CHF 284 million in 1999 and CHF 323 million in 1998.

17. Earnings per share

The following table presents the calculation of basic and diluted earnings per share:

Year ended December 31,	1999	1998
Income (loss) from continuing operations	238	(726)
Income (loss) from discontinued operations	87	(13)
Net income (loss)	325	(739)
Weighted average shares outstanding		
Basic	66 454 357	66 293 130
Add incremental shares from stock option plans	8 541	–
Diluted	66 462 898	66 293 130
Basic earnings (loss) per share		
Continuing operations	3.58	(10.95)
Discontinued operations	1.31	(0.20)
Net income	4.89	(11.15)
Diluted earnings (loss) per share		
Continuing operations	3.58	(10.95)
Discontinued operations	1.31	(0.20)
Net income	4.89	(11.15)

Diluted earnings per share assumes (i) that the 1.25% convertible bonds, issued in 1998, were converted at the beginning of the year in 1999 and in 1998, at the date of issuance, with related interest and common shares adjusted accordingly, and (ii) that the weighted average shares outstanding were increased by shares issuable upon exercise of those stock options for which the average stock market price exceeded the exercise price, less shares which could have been purchased by the Company with the related proceeds receivable from the exercise of the stock options. These two calculations are not considered in calculating dilutive earnings per share if the effect would be antidilutive, that is the dilutive earnings per share would be higher than the basic earnings per share.

For the years ended December 31, 1999 and 1998, the calculation of diluted earnings per share excluded the assumed conversion of the 1.25% convertible bonds, issued July 1998, due 2003, as their inclusion would have been antidilutive. In 1999, the calculation of diluted earnings per share excluded 417 153 stock options (1998: 443 583) with exercise prices between CHF 165 and CHF 183 as their exercise prices were greater than the average market price of the common shares for the year.

18. Related party transactions

Transactions with equity affiliates

The Company had receivables from equity affiliates of CHF 22 million and CHF 18 million in 1999 and 1998, respectively.

Investments in equity affiliates of CHF 563 million and CHF 554 million are included in financial investments in 1999 and 1998, respectively, and are described in Note 7.

Loans receivable from equity affiliates of CHF 57 million and CHF 99 million are included in other assets in 1999 and 1998 respectively. They consist primarily of CHF 39 million (USD 25 million) and CHF 52 million (USD 37 million) in 1999 and 1998, respectively, due from Hexcel Corporation, bearing interest at variable rates and are due in 2003, and CHF 10 million and CHF 40 million, for 1999 and 1998, respectively, due from CIMO Compagnie Industrielle de Monthey SA, bearing interest at 2% in 1999 and 1998.

The Company had payables and accrued expenses to equity affiliates of CHF 108 million and CHF 78 million in 1999 and 1998, respectively.

Other

The fair value of the compensation paid to members of the Board of Directors was CHF 1.5 million in 1999 and CHF 1.5 million in 1998. There were no loans between the Company and members of the Board.

Notes to Consolidated Financial Statements

(in millions of Swiss francs, except share and per share data)

19. Commitments and contingencies

Lease commitments

The Company leases certain facilities under operating leases. The future minimum lease commitments required under fixed term leases are: 2000 CHF 49 million; 2001 CHF 37 million; 2002 CHF 25 million; 2003 CHF 18 million; 2004 CHF 46 million; 2005 and thereafter CHF 98 million. Rental expense amounted to CHF 75 million and CHF 65 million in 1999 and 1998, respectively.

Purchase commitments

The Company has various purchase commitments for materials, supplies and items of permanent investment incident to the ordinary course of business. In the aggregate, these commitments are not in excess of current market prices and reflect normal business operations.

The Company and Prochimica S.R.L. announced in December 1997 an agreement whereby the Company will purchase Prochimica's photoinitiator production operations. The transaction is subject to clearance by Italian regulatory authorities and will be finalized in the first quarter of 2000, following completion of reorganization projects that Prochimica has undertaken. Since the Company is Prochimica's primary customer in the area of photoinitiators, this transaction is expected to have a minor impact on sales.

Guarantees

In the normal course of business, the Company has provided guarantees of approximately CHF 45 million. Although it is not practical to estimate their fair value, the Company does not expect to incur losses as a result of these guarantees.

Contingencies

The Company operates in countries where political, economic, social, and legal developments could 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 consolidated financial statements.

In the ordinary course of business, the Company is involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental and health and safety matters. There are no such matters pending that the Company expects to be material in relation to the Company's business, financial position or results of operations.

Pursuant to the spin-off, the Company and Novartis AG reached certain agreements with the Swiss authorities concerning income and transaction related taxes and stamp duties. Changes in control of the Company, larger concentrations of third-party voting rights or sale of material parts of the business within the next few years could trigger retroactive tax charges to the Company.

Taxes

The German tax authorities have completed the tax audit of the Company's operations in Grenzach, Germany for the period from 1989 to 1995, including the opening 1996 tax balance sheet of the Grenzach company as a result of the spin-off from Novartis AG. The German tax authorities have made a substantial tax adjustment. In accordance with the Master Spin-off Agreement with Novartis AG and with Swiss

commercial law, the Company is of the opinion that the total liability owed is the responsibility of Novartis AG. Management believes the ultimate outcome of this matter will not have a material adverse effect on the financial position or overall trend in the results of operations of the Company.

Environmental

The specialty chemicals business is highly regulated in many countries. A number of increasingly stringent regulations govern the manufacturing processes used and the waste and emissions created by the Company in all of its jurisdictions in which it does business and will create significant ongoing costs for the Company. In addition, many of the Company's manufacturing sites have an extended history of industrial, chemical and other processes.

The Company continues to participate in environmental assessments and clean-ups at a number of locations, including operating facilities, previously owned facilities and United States Superfund sites. The Company accrues for all known environmental liabilities for remediation costs when a clean-up program becomes probable and costs can be reasonably estimated.

The predecessor of Novartis AG has been party to litigation with various insurance companies relating to environmental liability. Under the agreement with Novartis AG, the Company is entitled to 50% from any net proceeds of this litigation. In 1998, certain litigation related to sites located in the United States were settled with the insurance companies. The Company's share of these settlements was approximately CHF 43 million, net of related legal costs incurred, and is included as a component of selling, general and administrative expenses in the accompanying 1998 Consolidated Statement of Income. The Company has not reflected any potential insurance recoveries that may be available in the future.

The contractual terms of the pending sale of the Performance Polymers business (see Note 3) stipulate that the Company will retain partial responsibility, under certain circumstances, for environmental claims related to the operations of the Performance Polymers business that have occurred prior to the sale date.

Management believes that the environmental reserves accrued are sufficient to meet all currently known environmental claims and contingencies and that any additional costs, which are subject to cost sharing arrangements with Novartis AG, will not be material to the Company's financial position or results of operations. This cost sharing agreement with Novartis AG could terminate for certain liabilities in the United States of America, upon a change in control of the Company, a sale of substantially all of the Company's assets or for individual facilities, upon the sale of the facility. Because of the nature of the Company's operations, however, there can be no assurance that significant costs and liabilities from ongoing or past operations will not be incurred in the future. In addition, environmental clean-up periods are protracted in length and environmental costs in future periods are subject to changes in environmental remediation regulations.

Independent Auditors' Report

Report of the Group Auditors to the General Meeting of the Shareholders of Ciba Specialty Chemicals Holding Inc., Basel

As auditors of the Group, we have audited the consolidated financial statements (statement of income, balance sheet, statement of cash flows, statement of shareholders' equity and notes presented on pages 14 to 32) of Ciba Specialty Chemicals Holding Inc. and its subsidiaries for the year ended December 31, 1999.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards generally accepted in the United States and in accordance with auditing standards promulgated by the profession in Switzerland, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with United States Generally Accepted Accounting Principles and comply with the Swiss law.

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

ARTHUR ANDERSEN AG



Paul Hoeve

Eric G. Ohlund

Basel, January 21, 2000

Five Year Summary of Selected Financial Data

(in millions of Swiss francs, except per share data)

	U.S. GAAP			Previous Accounting System International Accounting Standards (IAS)	
	1999	1998	1997	1996 ⁽¹⁾	1995 ⁽¹⁾
Results of operations					
Net sales	7 244	6 632	6 196	5 419	5 257
Income from continuing operations ⁽²⁾	238	314	455	n.a.	n.a.
Income from discontinued operations, net of tax ⁽²⁾	87	55	116	n.a.	n.a.
Net income ⁽²⁾	325	369	571	311	305
Basic and diluted earnings per share					
Continuing operations ⁽²⁾	3.58	4.74	6.68	n.a.	n.a.
Discontinued operations ⁽²⁾	1.31	0.83	1.70	n.a.	n.a.
Net income ⁽²⁾	4.89	5.57	8.38	n.a.	n.a.
Equity per share	55.45	49.56	65.31	n.a.	n.a.
Dividend per share ⁽³⁾	2.00	2.00	2.00	n.a.	n.a.
Other data – continuing operations					
Top line growth	9%	7%	14%	3%	(11%)
EBITDA	1 112	1 217	1 014	885	n.m.
EBITDA margin	15.4%	18.3%	16.4%	13.1%	n.m.
Capital expenditures	267	396	413	559	462
Depreciation and amortization	454	418	319	384	398
Research and development	256	249	250	325	313
Personnel costs	1 810	1 856	1 624	n.m.	n.m.
Number of employees at year end	20 117	21 148	18 137	n.m.	n.m.
Balance sheet data					
Current assets	4 272	4 284	4 734	5 007	4 219
Property, plant and equipment, net	3 914	3 853	3 454	4 090	4 352
Total assets	12 455	12 086	9 934	10 023	9 371
Short-term debt	1 174	1 905	1 814	1 779	1 446
Long-term debt	4 265	3 648	294	347	234
Shareholders' equity	3 685	3 293	4 336	4 389	4 886

(in millions of Swiss francs, except per share data)

	U.S. GAAP			Previous Accounting System International Accounting Standards (IAS)	
	1999	1998	1997	1996 ⁽¹⁾	1995 ⁽¹⁾
Business segment data					
Additives⁽⁴⁾					
Net sales	3 443	2 921	2 349	2 065	2 067
Additives	2 426	2 199	2 349	2 065	2 067
Water Treatments	1 017	722	–	–	–
EBITDA	657	681	506	464	n.m.
Additives	540	539	506	464	n.m.
Water Treatments	117	142	–	–	–
EBITDA margin	19.1%	23.3%	21.5%	22.5%	n.m.
Additives	22.3%	24.5%	21.5%	22.5%	n.m.
Water Treatments	11.5%	19.7%	–	–	–
Colors⁽⁵⁾					
Net sales	2 396	2 344	2 485	n.a.	n.a.
Pigments	1 310	1 231	1 252	1 073	1 026
Textile Dyes	1 086	1 113	1 233	1 173	1 083
EBITDA	363	335	409	n.a.	n.a.
Pigments	249	261	251	182	n.m.
Textile Dyes	114	74	158	110	n.m.
EBITDA margin	15.1%	14.3%	16.5%	n.a.	n.a.
Pigments	19.0%	21.2%	20.0%	17.0%	n.m.
Textile Dyes	10.5%	6.6%	12.8%	9.4%	n.m.
Consumer Care⁽⁶⁾					
Net sales	1 405	1 367	1 362	1 108	1 081
EBITDA	207	210	196	121	n.m.
EBITDA margin	14.7%	15.4%	14.4%	10.9%	n.m.
Discontinued operations⁽⁷⁾					
Performance Polymers business					
Net sales	1 729	1 791	1 626	1 322	1 239
EBITDA	193	140	217	128	n.m.
EBITDA margin	11.2%	7.8%	13.3%	9.7%	n.m.

See Glossary of Financial Terms

Footnotes

(1) The 1996 and 1995 amounts were not restated to reflect the pending sale of the Performance Polymers business, except for net sales and top line growth data. This historical financial information is presented for comparative purposes and was prepared in accordance with International Accounting Standards (unaudited) and is in compliance with the Master Spin-Off Agreement. This information is not necessarily indicative of the results of operations or related effects on the financial position that would have been obtained had the Company been a stand-alone entity during the periods presented. For comparative purposes with 1997, the 1996 operating profit has been adjusted to reflect the Company's new organizational structure. Balance sheet comparisons are based on the consolidated Balance Sheet at January 1, 1997.

(2) Before restructuring and special charges.

(3) 1999 is presented based on the proposal to the shareholders' meeting.

(4) The sales, EBITDA and EBITDA margin have been restated in 1998 and 1997 to reflect the combination of the Company's additives business with the Company's water treatments operations to create a new enlarged Additives division in 1999. Supplemental financial data for the Additives business excluding the Water Treatments business, and the Water Treatments business unit has been presented to provide a link to the previous divisional reporting structure. Financial data for the Water Treatments business unit in 1998 is presented for the nine month period since April 1, 1998, the date of the Allied Colloids acquisition.

(5) The sales, EBITDA and EBITDA margin have been restated in 1997 to reflect the combination of the Company's Pigments and Textile Dyes divisions and the transfer of products of the former Textile Dyes division to the Consumer Care division to form the Colors division in 1998. Financial data for years prior to 1997 has not been restated as the information related to the products transferred to the Consumer Care division for the periods prior to 1997 is not readily available. Supplemental financial data for the Pigments division (now principally the Inks, Paints and Plastics business unit) and Textile Dyes division (now principally the Textiles business unit) have been presented to provide a link to the previous divisional reporting structure.

(6) For comparative purposes, the 1997 Consumer Care financial data has been restated to reflect the effects of products transferred from the former Textile Dyes division. Financial data for years prior to 1997 has not been restated as the information related to the products transferred for periods prior to 1997 is not readily available.

(7) Reflects the results of the Performance Polymers business as a discontinued operation due to its pending sale (see Note 3 to the Consolidated Financial Statements). The results represent substantially all of the Performance Polymers division's business and do not include an allocation of the Company's interest costs or unallocated corporate general and administrative expenses.

n.a.: not applicable

n.m.: Data is not meaningful as the basis, which relied on estimated allocations of Ciba-Geigy AG corporate expenses and net assets, is not comparable.

**Major Consolidated Subsidiaries
and Associated Companies**

	Group holding 100%	Group holding over 50%	Group holding 20-50%	Selling Manufacturing Research Services, Finance		Group holding 100%	Group holding over 50%	Group holding 20-50%	Selling Manufacturing Research Services, Finance
Europe									
Austria									
Ciba Spezialitätenchemie GmbH, Wien	•			•					•
Belgium									
Ciba Specialty Chemicals N.V., Groot-Bijgaarden	•			•					•
Denmark									
Ciba Specialty Chemicals A/S Denmark, Copenhagen	•			•					•
Finland									
Ciba Specialty Chemicals Finland OY, Helsinki	•			•					•
France									
Ciba Spécialités Chimiques SA, Rueil-Malmaison	•			•••					•••
Société Nouvelle de Chimie Industrielle (S.N.C.I.), Saint Jeoire en Faucigny	•			•••					•••
Société Pyrénéenne de coloration "Sopyco" Sàrl, Abidos Mourens	•			••					••
Germany									
Ciba Solvay Duromer GmbH, Bergkamen ⁽¹⁾		•		••					••
Ciba Spezialitätenchemie Bergkamen GmbH, Bergkamen ⁽¹⁾	•			•••					•••
Ciba Spezialitätenchemie Grenzach GmbH, Grenzach-Wyhlen	•			••					••
Ciba Spezialitätenchemie Holding Deutschland GmbH, Lampertheim	•			•					•
Ciba Spezialitätenchemie Verwaltungs-GmbH, Lampertheim	•			•					•
Ciba Spezialitätenchemie Lampertheim GmbH, Lampertheim	•			•••					•••
Ciba Spezialitätenchemie Pfersee GmbH, Langweid/Lech	•			•••					•••
TFL Ledertechnik GmbH & Co. KG, Weil am Rhein	•			•••					•••
Greece									
Ciba Specialty Chemicals Hellas ABEE, Athens	•			••					••
Hungary									
Ciba Specialty Chemicals Magyarorszag, Kft. Budapest	•			•					•
Italy									
Ciba Specialty Chemicals S.p.A., Sasso Marconi (Bologna)	•			•••					•••
Magenta Master Fibres, S.r.L., Milano	•			•••					•••
Netherlands									
Ciba Specialty Chemicals International Nederland B.V., Maastricht	•			•					•
Ciba Specialty Chemicals (Maastricht) B.V., Maastricht	•			•••					•••
Norway									
Ciba Specialty Chemicals A/S Norway, Oslo	•			•					•
Portugal									
Ciba Especialidades Químicas Lda., Porto	•			•					•
Europe									
Spain									
Ciba Especialidades Químicas S.L., Barcelona	•			••					••
Industrias Químicas de Navarra S.A., Pamplona ⁽¹⁾	•			••					••
Sweden									
Ciba Specialty Chemicals Sweden AB, Göteborg	•			•					•
Switzerland									
Ciba Spezialitätenchemie Holding AG, Basel (listed on Swiss Exchange)									•
Ciba SC Recherche Marly SA, Marly				•					•
Ciba Spécialités Chimiques Monthey SA, Monthey	•			••					••
Ciba Spezialitätenchemie AG, Basel	•			•••					•••
Ciba Spezialitätenchemie Finanz AG, Basel	•			•					•
Ciba Spezialitätenchemie International AG, Basel	•			•					•
Ciba Spezialitätenchemie Kaisten AG, Kaisten	•			•					•
Ciba Spezialitätenchemie Schweizerhalle AG, MuttENZ	•			•					•
Ciba Spezialitätenchemie Services AG, Basel	•			•					•
CIMO Compagnie Industrielle de Monthey SA, Monthey		•		•					•
Turkey									
Ciba Özel Kimyevi Ürünler Sanayi ve Ticaret Ltd., Istanbul	•			••					••
United Kingdom									
Ciba Specialty Chemicals PLC, Macclesfield	•			•••					•••
Ciba Specialty Chemicals Investment PLC, Macclesfield	•			•					•
Ciba Specialty Chemicals Performance Polymers Ltd., Macclesfield ⁽¹⁾	•			•••					•••
Ciba Specialty Chemicals Water Treatments Ltd., Bradford	•			•••					•••
North America									
Bermuda									
Chemical Insurance Company Ltd., Hamilton	•			•					•
Ciba Specialty Chemicals International Finance Ltd., Hamilton	•			•					•
Ciba Specialty Chemicals Investment Ltd., Hamilton	•			•					•
Canada									
Ciba Specialty Chemicals Canada Inc., Mississauga	•			••					••
Ciba Specialty Chemicals Water Treatments Corp., Brampton	•			•					•
USA									
Ciba Specialty Chemicals Corporation, Tarrytown, NY	•			•••					•••
Ciba Specialty Chemicals Water Treatments Inc., Suffolk, VA	•			•••					•••
Hexcel Corporation, Pleasanton, CA	•			•••					•••

	Group holding 100%	Group holding over 50%	Group holding 20-50%	Selling Manufacturing Research Services, Finance		Group holding 100%	Group holding over 50%	Group holding 20-50%	Selling Manufacturing Research Services, Finance	
Latin America						Asia				
Argentina						Indonesia				
Ciba Especialidades Químicas S.A., Buenos Aires	•			•		P.T. Candra Sari, Jakarta	•		•	
Brazil						P.T. Ciba-Geigy Indonesia, Jakarta				
Ciba Especialidades Químicas Ltda., São Paulo	•			•		Japan				
Chile						Asahi-Ciba Ltd., Tokyo ⁽¹⁾				
Ciba Especialidades Químicas Ltd., Santiago de Chile	•			•		Chemipro Fine Chemical Kaisha Ltd., Kobe	•		•	
Ciba Especialidades Químicas Conosur S.A., Santiago de Chile				•		Ciba Specialty Chemicals K.K., Takarazuka/Tokyo	•		•	
Colombia						Musashino-Geigy Co. Ltd., Tokyo				
Ciba Especialidades Químicas S.A., Bogota	•			•		Nagase-Ciba Ltd., Osaka ⁽¹⁾	•		•	
Guatemala						Nippon Alkyl Phenol Co. Ltd., Tokyo				
Ciba Especialidades Químicas, S.A. (ACC), Guatemala	•			•		Republic of Korea (South Korea)				
Mexico						Cheil Ciba-Geigy Co. Ltd., Kumi				
Ciba Especialidades Químicas Mexico S.A. de C.V., Mexico	•			•		Ciba Specialty Chemicals Korea Ltd., Seoul	•		•	
Panama						Daihan Swiss Chemical Corp., Seoul				
Ciba Especialidades Químicas Colon S.A., Colon	•			•		Malaysia				
Asia						Ciba Specialty Chemicals (Malaysia) SDN. BHD., Klang				
China						Singapore				
Ciba Specialty Chemicals (China) Ltd., Beijing	•			•		Ciba Specialty Chemicals (Singapore) Pte Ltd., Singapore	•		•	
Ciba Specialty Chemicals (Hong Kong) Ltd., Hong Kong	•			•		Taiwan				
Ciba Specialty Chemicals (Shanghai) Ltd., Shanghai	•			•		Asia Pacific Resin Corporation, Kaohsiung Hsien ⁽¹⁾				
Guangdong Ciba Polymers Co. Ltd., Panyu, Guangdong	•			•		Ciba Specialty Chemicals (Taiwan) Ltd., Kaohsiung	•		•	
Guangzhou Ciba Specialty Chemicals Co. Ltd., Guangzhou	•			•		Thailand				
Qingdao Ciba Dyes Co. Ltd., Qingdao	•			•		Ciba Specialty Chemicals (Thailand) Ltd., Bangkok				
Qingdao Ciba Pigments Co. Ltd., Qingdao	•			•		Ciba Specialty Chemicals Industries Ltd., Bangkok	•		•	
Shanghai Ciba Gao-Qiao Chemical Co. Ltd., Shanghai	•			•		United Arab Emirates				
Shenzhen Ciba Specialty Chemicals Co. Ltd., Shenzhen	•			•		Ciba Specialty Chemicals (Middle East) FZE, Dubai ⁽¹⁾				
Xiangtan Chemicals & Pigments Co. Ltd., Xiangtan	•			•		Africa				
India						Egypt				
Ciba India Private Ltd., Mumbai	•			•		Ciba Specialty Chemicals Co. (S.A.E.), Cairo ⁽¹⁾				
Ciba Specialty Chemicals (India) Ltd., Mumbai	•			•		South Africa				
INDO Swiss Textile Chemicals Ltd., Mumbai	•			•		Ciba Specialty Chemicals (Pty) Ltd., Spartan				
Petro Araldite Pvt. Ltd., Chennai ⁽¹⁾	•			•		Australia & New Zealand				
Pigments Specialties India Pvt. Ltd., Mumbai	•			•		Australia				
Plastichemix Industries Ltd., Baroda Pondicherry	•			•		Ciba Specialty Chemicals Pty. Ltd., Thomastown				
Swathi Organics & Specialities Pvt. Ltd., Pondicherry	•			•		New Zealand				
						Ciba Specialty Chemicals N.Z. Ltd., Auckland				

⁽¹⁾ Subsidiaries and associated companies that will either be sold or otherwise discontinued in connection with the pending sale of the Performance Polymers business.

Ciba Specialty Chemicals Holding Inc. Financial Statements

(in thousands of Swiss francs, except share and per share data)

Statement of income	1999	1998
Financial income	190 226	196 977
Extraordinary income	–	1 311
Total income	190 226	198 288
Administrative expenses	7 824	7 503
Financial expenses	36 587	43 670
Taxes	4 834	6 875
Total expenses	49 245	58 048
Profit for the year	140 981	140 240

Balance sheet	December 31, 1999	December 31, 1998
Assets		
Cash and cash equivalents	757	2 967
Marketable securities	112 194	95 293
Accounts receivable:		
Group companies	629 945	289 395
Third parties	32 449	35 833
Total current assets	775 345	423 488
Financial investments	2 593 383	2 550 953
Total long-term assets	2 593 383	2 550 953
Total assets	3 368 728	2 974 441

Liabilities and shareholders' equity		
Liabilities:		
Group companies	16 962	412 920
Third parties	20 706	12 685
Banks	474 150	–
Bonds	300 000	–
Provisions	126 000	126 000
Total liabilities	937 818	551 605
Share capital	721 301	721 301
Legal reserves:		
General reserve	1 160 786	1 160 551
Treasury stock reserve	359 282	359 517
Retained earnings	189 541	181 467
Total shareholders' equity	2 430 910	2 422 836
Total liabilities and shareholders' equity	3 368 728	2 974 441

Notes to the financial statements of Ciba Specialty Chemicals Holding Inc.**1. Summary of significant accounting policies**

The accompanying financial statements have been prepared in accordance with the legal stipulations of the Swiss Code of Obligations.

The positions on the balance sheet denominated in foreign currencies are translated into Swiss francs at year-end exchange rates. The resulting exchange rate differences and the differences from current business operations are charged to the income statement. Exchange rate differences from identical active and passive loans are offset against each other.

2. Marketable securities

Marketable securities include treasury stock at a book value of CHF 95 million in 1999 and CHF 95 million in 1998 (see also note 6).

3. Contingencies

	1999	1998
Guarantees for capital and interests for "Industrial Revenue Bonds"	389 548	380 960
Guarantees for the benefit of group companies	117 531	956 876
Guarantees for bonds and notes for the benefit of group companies	6 411 604	5 782 960
Total as per December 31,	6 918 683	7 120 796

4. Bonds

In 1999, the Company issued a CHF 300 million straight bond with an interest rate of 3.25%. Interest payments are due as per April 6 of each year. Date of repayment is April 6, 2009.

5. Financial investments

Financial investments include loans to group companies of CHF 1 075 million in 1999 and CHF 1 055 million in 1998. The major direct and indirect investment in group companies and joint ventures of Ciba Specialty Chemicals Holding Inc. are listed in this report in the section "Major consolidated subsidiaries and associated companies".

(in thousands of Swiss francs, except share and per share data)

6. Treasury stock (number)	1999	1998
Treasury stock on January 1,	5 676 798	5 741 045
Purchased at market prices	–	806 915
Sale to "Foundation for Employee Participation of Ciba Specialty Chemicals" at a price of CHF 15 per share	–	(505 000)
Sale at market prices	(1 679)	(366 162)
Treasury stock on December 31,	5 675 119	5 676 798

7. Share capital

The General Meeting of the Shareholders on April 20, 1998 passed the following resolutions:

Authorised increase of share capital

Until April 20, 2000 the Board of Directors is allowed to issue at maximum 4 million fully paid in registered shares at a nominal value of CHF 10 per share. This results in an increase of the share capital of CHF 40 million at maximum.

Conditional increase of share capital

The Company's share capital is increased by issuance of at maximum 4 million fully paid in registered shares at a nominal value of CHF 10 per share. This increase of the share capital by up to CHF 40 million is restricted to the execution of option and conversion rights. The subscription right for existing shares may be excluded.

The Company's share capital is increased by issuance of at maximum 2 million fully paid in registered shares at a nominal value of CHF 10 per share. This increase of the share capital by up to CHF 20 million is restricted to the execution of option and conversion rights granted to the Group's employees.

8. Major shareholders

According to our knowledge the following shareholders hold more than 2% of the share capital:
Banque Paribas (Suisse) SA, Geneva
(registered as nominee) **2.2%**

Proposed appropriation of retained earnings

	1999	1998
Profit carryforward	48 560	41 227
Profit for the year	140 981	140 240
Total free surplus	189 541	181 467
Distribution of a gross dividend of CHF 2.00 (1998: CHF 2.00) on 66 454 998 registered shares (1998: 66 453 319 registered shares) at a nominal value of CHF 10 per share (excluding treasury stock)	132 910	132 907
Balance carried forward	56 631	48 560

Report of the statutory auditors to the General Meeting of the Shareholders of Ciba Specialty Chemicals Holding Inc., Basel

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Ciba Specialty Chemicals Holding Inc., Basel, for the year ended December 31, 1999.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of retained earnings comply with the law and the company's articles of incorporation.

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

ARTHUR ANDERSEN AG



Eric G. Ohlund



Markus Schweizer

Basel, January 21, 2000

Glossary of Financial Terms

Acquired In-Process Research and Development Costs is the portion of the consideration paid in an acquisition that is allocated to incomplete research and development (R&D) projects. The amount allocated is based on an independent appraisal using standard valuation procedures and techniques. In accordance with U.S. GAAP, in-process R&D costs are expensed immediately.

Average Invested Capital is the sum of invested capital at year end plus the invested capital as of the beginning of the year divided by two; the result is adjusted for an annualizing adjustment for acquisitions and divestitures that occurred during the reporting period, plus the current year goodwill amortization. The annualizing adjustment amends average invested capital in a way which ensures that invested capital relating to an acquisition/divestment is proportional to the period during which the investment was consolidated. To illustrate, for an acquisition where the operations are consolidated for nine months, invested capital is proportionately adjusted to reflect 75% of the amount that would normally be expected for a full year.

Basic Earnings per Share is defined as net income divided by the weighted average number of common shares outstanding during the reporting period.

Cash Available for Debt Repayment is defined as cash provided by operating activities less cash used in investing activities and dividend payments.

Cash Flows from Operating Activities is the net cash provided from the principal revenue-producing activities of the business.

Commercial Paper are short-term borrowings that are typically due within 30 to 270 days from the date of issuance and are issued by companies with good credit ratings.

Convertible Bonds are debt instruments that may be converted into shares based on predefined conditions as stipulated in the debt agreement.

Cost of Capital is calculated by multiplying the average invested capital by the weighted average cost of capital.

Defined Benefit Pension Plan is a pension plan that provides employees at their date of retirement, a predefined payment. The payment is, depending on the benefit plan, a function of one or more factors such as age, years of service or compensation level of the employee.

Defined Contribution Pension Plan is a pension plan for employees that provides the employees, at the date of their retirement, benefits based on the amount of capital paid-in by the participant or the Company, plus returns earned on the investment of those contributions.

Diluted Earnings per Share is similar to basic earnings per share (net income divided by the weighted average number of common shares outstanding) except that it reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible debt, were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Company. Antidilutive effects are not considered.

Derivatives, Derivative Financial Instruments are financial contracts or agreements, the value of which is linked to current or future interest rates, exchange rates, prices of securities, or financial or commodity indices. The Company uses a broad range of financial instruments, including forward exchange currency contracts, options bought and sold and interest rate and currency swaps. The Company uses these instruments as part of its program to manage its exposure to adverse fluctuations in interest and exchange rates and other market risks.

EBIT (Earnings Before Interest and Taxes) is calculated as operating income before restructuring and special charges.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income before restructuring and special charges plus depreciation and amortization.

EBITDA Margin is EBITDA expressed as a percentage of net sales (EBITDA divided by net sales).

Economic Profit is determined by subtracting a capital charge from NOPAT. A capital charge is calculated by multiplying the average invested capital by the weighted average cost of capital ("WACC").

Equity per Share is calculated by dividing total shareholders' equity by the number of outstanding common shares (total common shares issued less treasury shares outstanding) at the balance sheet date.

Free Cash Flow is Cash Flows from Operating Activities less net cash used for investing activities, other than acquisitions. The Company uses free cash flows for reinvestment in the business and dividend payments.

Goodwill is recognized in an acquisition of a business if the amount of the consideration paid by the Company is in excess of the fair value of the acquired entity's tangible and identifiable intangible net assets.

Gross Profit is defined as net sales less costs of goods sold.

Gross Profit Margin is Gross Profit expressed as a percentage of net sales (Gross Profit divided by net sales).

Intensities are amounts expressed as a percentage of net sales. Intensity of inventories is equal to the inventories divided by net sales. Intensities of accounts receivables and payables are calculated correspondingly.

Invested Capital is the sum of total assets less non-interest bearing current liabilities (i.e. accounts payable, income taxes payable as well as accruals and other current liabilities) less deferred tax assets and the current portion of deferred tax liabilities.

Net Assets are defined as Invested Capital. Please refer to the definition of Invested Capital.

Net Cash Provided by Operating Activities is the net cash provided from the principal revenue-producing activities of the business. It excludes financing and investing activities.

Net Current Operating Assets is the sum of inventories and accounts receivable less accounts payable.

NOPAT (Net Operating Profit After Tax) is calculated as EBIT before amortization of goodwill, less a notional tax charge of 25%.

NOPAT Margin is NOPAT expressed as a percentage of net sales (NOPAT divided by net sales).

Notional Value (of a derivative financial instrument) is the stated contract amount or the notional principal amount if there is no stated contract amount for the financial instrument.

Operating Cash Flows per Share is calculated by dividing net cash provided by operating activities by the weighted average number of common shares outstanding during the period.

Operational Current Assets is the sum of accounts receivable, inventories, pre-paid and other current assets.

Top Line Growth is the increase of the current period's net sales in Swiss francs over the previous period's sales in Swiss francs expressed as a percentage.

Top Line Growth in Local Currencies is the increase of the current period's net sales in local currencies over the previous period's net sales expressed as a percentage.

Velocity is calculated by dividing net sales by average invested capital for the period.

Weighted Average Cost of Capital ("WACC") is the weighted average cost associated with the Company's debt and equity.

Ciba Specialty Chemicals' 1999 Annual Report consists of the Business Review and Financial Review.

The documents are published in both English and German.

This report was produced using Ciba Specialty Chemicals' products contained in papers, inks and other materials.

This 1999 Annual Report was developed and written by Corporate Communications and Corporate Finance, Ciba Specialty Chemicals.
© Ciba Specialty Chemicals Inc. 2000.

Produced by Jewitt Webb-Jenkins.
Designed by Browns.
Typeset by Real Time Studio.
Printed in Switzerland by Birkhäuser + GBC Ltd.

Ciba Specialty Chemicals Inc.

Klybeckstrasse 141
CH-4002 Basel
Switzerland

Ciba



Value beyond chemistry