Ciba Specialty Chemicals

Half-year report 1999

Ciba

Sales in the first six months increase 2 percent in Swiss francs

Business is emerging from its lows at year-end 1998; further improvements seen in the second half of 1999

Operational improvement initiatives deliver benefits; expected to support margins further

Full-year 1999 outlook confirmed

Recovery in results seen in 2000 should business climate continue to improve

Consolidated Statements of Income
(in millions of Swiss francs)

Six months ended June 30,	**1999**	1998[1]	Change %
Net sales	**4 374**	4 286	2
Operating income[2]	**358**	490	(27)
Net income[2]	**121**	258	(53)
EBITDA[3]	**611**	712	(14)

(1) The 1998 financial data includes the results of the business from Allied Colloids for the three-month period since April 1, 1998, the date of the acquisition.
(2) Before restructuring and special charges.
(3) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is calculated as operating income before restructuring and special charges plus depreciation and amortisation.

Dear Shareholders,
I set three priorities when on 1 January 1999 I assumed operational responsibilities as CEO in addition to my existing role as Chairman: First, a rapid and complete implementation of the cost reduction programmes we had begun the previous year. Second, the initiation of additional measures to mitigate the effects of the downturn in the specialty chemicals industry. And third, the promotion of profitable future growth and innovation.

Our major cost reduction programmes in the Performance Polymers and Colors divisions are now fully implemented and delivering the expected benefits. Under new leadership, the Water Treatments business has regained sales momentum, is implementing supply chain and operational improvements and has announced around 250 job reductions. Looking ahead, our strong portfolio and strategic focus on businesses with above average growth and innovation potential position us well for promoting profitable growth. We have also seen first signs of a moderate economic recovery, which we expect will further support our business.

Our financial performance: challenged by a tough industry environment
The fallout from the Asian and emerging markets crisis as well as the economic weakness in Europe had a significant impact on our industry and our Company during the second half of last year and early part of this year. In the first six months of 1999, sales excluding the Allied Colloids acquisition fell 5 percent in Swiss francs, or 3 percent in local currencies. After weak sales at the beginning of the year, we saw improvements, particularly in March and June.

A substantial price erosion of 3.3 percent significantly reduced operating income. In addition, much smaller positive effects from a 1.8 percent volume mix increase were offset by negative currency effects, especially in Latin America. It is important to note, however, that we improved operating income* compared with the second half of 1998 – once adjusted for last year's higher result from our investment in Hexcel Corporation, a U.S. aerospace composites company, and a one-time gain from an insurance settlement.

Our operational improvements: timely and targeted initiatives produce results
We are confident that we will reach the CHF 150 million in cost savings we had targeted for 1999. The restructuring of the Performance Polymers division and the formation of the Colors division have been very successful and more than delivered in the first half. These initiatives were nevertheless unable to offset the price erosion effect that pushed down operating income.

During the second quarter of 1999, we completed the restructuring of the Performance Polymers division under a new management team. We realigned the division's strategic focus to higher value-added specialties, which reduced sales volume in the first half but helped improve margins in relative terms. As part of our efforts to explore strategic options for the division, we recently distributed information about the business to parties potentially interested in buying it. Our aim is to ensure a successful future for the business, its customers and its employees as well as for Ciba Specialty Chemicals as a whole.

The combination of the former Pigments and Textile Dyes divisions into the Colors division was also completed successfully in the second quarter. Costs are being saved by merging infrastructure and business processes. The introduction of a shared supply chain platform also is improving the availability of information, allowing for a further reduction in inventories.

*before restructuring and special charges

In the Water Treatments business, expected operational improvements were not realised to the extent possible under the previous management. In addition, in the second half of 1998 the business' cost base was expanded prematurely, considering the still limited sales recovery. We took decisive action to correct this situation. Under a strong new management team, Water Treatments was moved into the Additives division. The business has since raised sales on a comparable basis by 7 percent in local currencies in the first half of 1999. Improvements were initiated, particularly in the supply chain and operations. In addition, approximately 250 job reductions were announced in the UK and the U.S. In the process, care has been taken to retain and further build this organisation's strong sales and technical capabilities. The Water Treatments business is now poised to bring down costs while generating profitable sales growth, which will benefit from increased environmental regulations and customer demands for highly effective and efficient solutions.

In order to mitigate the effects of the industry downturn on 1999 earnings and cash flow, we introduced a broad, company-wide programme earlier this year – Impact'99. A central part of Impact'99 is to capitalise on profitable sales growth opportunities across the Company. This includes, wherever possible, selective price increases, and customers have shown understanding that price erosion cannot continue further. We are also pursuing initiatives to promote frontline growth and innovation in all of our businesses.

In addition, we are looking to enhance our cash flow by, among other things, selectively selling non-essential assets in order to reduce our debt level. This includes the sale announced in March of our participation in Cerdec, a ceramic colours joint venture with Degussa-Hüls. Also, thanks to active treasury management, we have been able to reduce the annual cost of our long-term debt to 4.2 percent.

As part of Impact'99, we are also cutting discretionary spending and keeping tight controls on cash flow and the management of our assets. We already were able to avoid normal seasonal increases in inventories, which speaks for effective asset management. We are pursuing projected cuts to capital expenditure of CHF 100 million, producing maximum impact by de-bottlenecking plants and more effectively using existing facilities.

The measures to bring about operational improvements in our businesses require an enormous effort by all of our employees. Understandably, they have been concerned to see their efforts diluted during a period of price erosion in our industry without much volume mix growth. But their hard work is beginning to pay off and constitutes a strong foundation for future success.

Our outlook: cautious about 1999 but possible recovery seen in 2000

Our first-half results on a comparable basis recovered noticeably when compared with the second half of 1998 and the beginning of 1999. We expect our results to continue improving in the second half of 1999, though they will be unable to compensate for the difficult first half, in part because of lower income from Hexcel. Based on our sales development in recent months, we nevertheless believe that business is improving. Our operational initiatives are bringing benefits and are expected to support margins further in the second half. In addition, the economic environment has shown a moderate improvement in recent months. We are seeing some improvements in Asia, continued good growth in North America but continued weak sales development in Latin America. We still see sluggishness in Europe, particularly in Germany and the UK.

Assuming the improvement in the business climate continues, full-year sales are expected to be marginally higher than in 1998. Given the ongoing margin pressure and effects such as Hexcel's weaker result, we continue to expect a decline in the EBITDA** margin in 1999 by 1 percentage point or somewhat more as compared with the full year 1998. This also is expected to lead to lower earnings per share. In general, however, we would expect a recovery of our results in 2000, provided the economic trends remain favourable.

Before the spin-off from Novartis, our EBITDA as a percentage of sales was at 13 percent. In 1998, we improved that margin to 16 percent. We are continuously striving to improve our EBITDA margin still further and are holding on to our five-year objective of reaching an EBITDA of 18 to 20 percent of sales.

Our strategy: focus on growth businesses, innovation and added value for customers

We are further strengthening our portfolio by increasing the relative weight of those parts of our business that show the strongest profitable growth potential, while reducing the relative weight of those with limited growth and innovation potential. We have stepped up our efforts to channel resources into our most attractive segments: Polymer Additives, Imaging and Coating Additives, Home and Personal Care products, Water Treatments, and colours for Inks, Paints and Plastics. These five businesses, which represent about half of our sales, together enjoy an average market growth rate of about 4.5 percent a year. By continuing to devote two-thirds of our R&D spending and capital expenditure to these areas, we aim to grow these businesses by at least one-and-a-half times the market growth rate, given normal business conditions.

In the area of Polymer Additives, the trend to substitute plastics for other materials is offering new opportunities for our technologies. Our Polymer Additives as well as our special colours produced by the Inks, Paints and Plastics business are also opening up new markets in engineering plastics used in areas such as computer equipment and transportation. A promising growth area for Imaging and Coating Additives is additives for water-based coatings produced with technology acquired from the former Allied Colloids. In the area of Water Treatments, we expect increased regulations and growing consumer demand to benefit our pollution control business. We also hold a good position in the Home and Personal Care sector, where we see particularly attractive growth opportunities in areas such as UV protection for clothes and skin care as well as antimicrobials for fibres.

The other parts of our portfolio, including our leading Whiteners and Fabric Processing and Finishing businesses, also play an important role in supporting our Company's success. Also in our more mature markets we are dedicated to providing excellent customer service and product quality along with maintaining profitability.

I strongly believe in our Company's strengths as an industry leader. We are committed to building on our track record of providing value in use to our customers and increasing their efficiency with our high quality products and services. I have confidence in our highly professional and skilled employees to ensure that we will continuously meet these business objectives. As we move ahead, I remain personally committed to delivering value to you, our shareholders.

R. A. Meyer

Rolf A. Meyer
Chairman of the Board
and Chief Executive Officer

**Earnings Before Interest, Taxes, Depreciation and Amortisation

Financial Review*

Overview

Ciba Specialty Chemicals' sales between 1 January 1999 and 30 June 1999 rose 2 percent in Swiss francs, or 4 percent in local currencies, to CHF 4.374 billion. The first half of 1999 saw a significant improvement in sales over the second half of last year. Excluding acquisition effects, however, the difficult market conditions, particularly at the beginning of 1999, precluded sales from reaching levels similar to the first half of 1998. Comparisons therefore are influenced by a strong base effect stemming from a much more favourable business climate in the first half of last year. This is also reflected in operating income, which decreased compared with the first half 1998 but recovered on a comparable basis against the second half of last year. Benefits from restructuring the Colors and Performance Polymers divisions have started to take effect, and the Company is confident about producing a positive impact with operational improvements initiated in the Water Treatments business. For the full year, Ciba continues to expect a drop in its EBITDA** margin of 1 percentage point or somewhat more, in part because of lower income from its investment in Hexcel Corporation, a U.S. aerospace composites company. Should the trend of a moderate improvement in the business climate continue, the Company expects a recovery in its results in 2000.

Detailed Half-Year Results

Sales

The Company's sales grew 2 percent in Swiss francs, or 4 percent in local currencies. The appreciation of the Swiss franc against other major currencies as well as the devaluation of the Brazilian real resulted in an unfavourable currency impact. Prices were lower, on average 3.3 percent, and the Company initiated selective price increases in some businesses in order to enhance profitable sales growth. Volume rose 1.8 percent in the first six months, increasing in Additives, Water Treatments and Consumer Care and remaining stable in the Colors division. In the Performance Polymers division, volume decreased due to the deliberate move into higher value-added products.

Excluding the Allied Colloids acquisition, the Company's sales declined by 5 percent in Swiss francs, or 3 percent in local currencies.

Sales trends indicate that the industry reached its low point at the beginning of the year, with January and February being very weak. A slow industry recovery has since set in, with stronger sales in March and June. Overall sales levels are higher than in the second half of 1998, even though they do not match those posted in the first half of last year.

Sales were lower in Europe and parts of the Western Hemisphere and stronger in most Asian countries. The recovery compared with the second half of last year was most visible in Asia and North America. Sales in Europe, particularly Germany and the UK, were slower to rebound. Sales in Latin America remained weak.

Operating Income

Operating income declined by 27 percent in Swiss francs, or 22 percent in currency-adjusted terms. EBITDA fell 14 percent in Swiss francs, or 10 percent in local currencies. This illustrates, first, the impact of weaker sales prices and resulting lower gross profit margins, which, however, recovered from the second half of 1998. Second, selling, general and administrative costs showed an increase over 1998, mainly as a result of acquisition effects, because expenses from the former Allied Colloids had been included for only one quarter in the first half of 1998. The Company also incurred additional costs due to the build-up of new business activities and operations as well as miscellaneous expenses in several divisions.

Third, income from the Company's 49 percent investment in Hexcel was CHF 19 million lower than in the first half of 1998. Finally, the Company booked CHF 32 million of goodwill amortisation for two quarters from the Allied Colloids acquisition after recording CHF 16 million for only one quarter in the first half of 1998 (Allied Colloids was consolidated 1 April 1998).

Nevertheless, first-half operating income is 16 percent higher than in the second half of last year, once adjusted for last year's higher Hexcel result and a one-off gain from an insurance settlement of CHF 43 million booked in the fourth quarter of 1998. This, again, confirms the trend that business results are improving.

*All financial comparisons are based on results before restructuring and special charges.
**Earnings Before Interest, Taxes, Depreciation and Amortisation

To support margins, the Company in April introduced Impact'99. This programme has the following objectives: profitable sales growth through initiatives including selective price increases; cuts in discretionary spending; and cash flow generation, especially by limiting capital expenditure, effectively managing assets, and selectively selling non-essential assets such as the Company's share of the Cerdec ceramic colours joint venture with Degussa-Hüls. The first positive effects from these initiatives were noted towards the end of the second quarter.

Interest expenses rose only slightly over those in the first half of 1998, when Allied Colloids was acquired. They have come down considerably when compared with the second half of 1998, reflecting effective treasury management through debt refinancing at even more attractive conditions. The average annual cost of long-term debt has dropped to 4.2 percent.

Net income for the first six months amounted to CHF 121 million, which translates into earnings per share of CHF 1.82.

Balance Sheet

While receivables increased due to the pick-up in sales, inventory levels do not reflect the usual seasonal increase before the typical summer production slow-downs. This is due to strong inventory management, particularly in the Colors and Performance Polymers divisions. Debt levels reflect the financing taken up in connection with the 1998 Allied Colloids acquisition. The increase over year-end 1998 is almost entirely due to the higher U.S. dollar and British pound exchange rates as of 30 June 1999 compared with 31 December 1998.

Cash Flow

Despite lower operational results, cash flow from operations was at the levels of the first half of 1998, primarily reflecting strong inventory management. Capital expenditure was lower than in the first half of 1998, in line with the Company's initiatives to reduce spending and focus investments.

Divisional Results

Additives

Additives, excluding the Water Treatments business unit, recorded sales of CHF 1.167 billion, up 2 percent in Swiss francs and 3 percent in local currencies. This was based on high volume growth which, however, was partly offset by what continued to be significant price concessions. Stronger sales in the Polymer Additives and Imaging and Coating Additives businesses during the latter part of the reporting period more than compensated for weakness early in the year. Strong sales increases were posted in China, Southeast Asia, Africa/Middle East and Japan. Europe showed little growth, and North America was stable. South America recorded a weak performance in Swiss francs but was strong in local currencies.

Operating income, reflecting the impact of lower sales prices, declined to 17 percent of sales and EBITDA to 22 percent of sales – ratios which are in line with normal performance levels in the division.

The Additives division announced selective price increases starting 1 July 1999 that it expects will help stop price erosion in the industry. Full benefits are primarily expected in 2000 after all new customer contracts have become effective. Profitability in 1999 therefore is expected to remain at current levels.

Water Treatments

The Water Treatments business unit posted sales of CHF 503 million, up 5 percent in Swiss francs and 7 percent in local currencies, on a comparable basis. Volume growth clearly outpaced price declines. Pollution Control benefited from strong U.S. and German markets, and the Paper Technology business remained on its growth path. Lower sales were posted by the industry segments Extractive Industries, which includes oil extraction and mineral processing, and Co-Producers and Specialty Monomers, which produces intermediates for a range of industries.

With operating income at CHF 18 million, profitability levels did not meet expectations. Affecting results were the weaker performance recorded by Co-Producers and Specialty Monomers and portions of Extractive Industries as well as some minor remaining charges linked to the integration.

In addition, under the previous management, the expected operational improvements were not realised to the extent possible, and the cost base in the second half of 1998 was expanded prematurely, considering the still limited sales recovery. The Company took decisive action to correct this situation. Under a strong new management team, Water Treatments was moved into the Additives division. The business has since regained sales momentum, and improvements were initiated, particularly in the supply chain and operations. In addition, approximately 250 job reductions were announced in the UK and the U.S. Care has been taken in the process to retain and further build this business' strong sales and technical capabilities.

Full-year 1999 results will be strongly affected by the delays in achieving operational improvements as well as by the weaker market conditions affecting parts of the business. There are good indications, however, that Water Treatments, under the umbrella of the Additives division, has resumed its overall sales growth and will achieve higher efficiency and profitability levels.

Colors

The division's sales declined 6 percent in Swiss francs to CHF 1.172 billion, or 4 percent in local currencies. Stable sales volume was unable to compensate for price reductions tied to the difficult market environment. Asia continued to recover, while sales in the Americas were flat. Europe posted a mixed performance.

In the business unit colours for Inks, Paints and Plastics (IPP), volume growth was unable to offset price decreases. Colours for Textiles continued to suffer from a depressed textiles industry even though Asia improved, with particularly strong sales in Thailand, South Korea and China. Sales in Europe and Africa remained slow but improved in the U.S.

At CHF 94 million, the division's operating income lay below the first half of 1998 but was clearly higher than in the second half of 1998. The IPP business was impacted by the effect of lower sales prices and had to absorb additional costs tied to the start-up of major production facilities in the U.S., China and Paisley, Scotland.

The Textiles business unit had to absorb higher idle capacity costs linked to lower volume demand. However, it strongly benefited from the synergy targets achieved through the combination of the former Textile Dyes and Pigments divisions. This allowed the business to offset margin pressure as well as post almost stable operating income compared with the first half of last year and significant improvements compared with the latter part of 1998.

The textiles industry is showing first signs of a small recovery, mainly in Asia, and market conditions in the ink and paint industries are also slowly improving. The potential for significant sales growth in textiles remains limited, however. Overall, the division will benefit from cost savings through the formation of the Colors division and should achieve results in line with 1998.

Consumer Care

The Consumer Care division posted sales of CHF 686 million. This corresponds to a 3 percent decrease in Swiss francs and a 1 percent increase in local currencies. Prices were lower, with small volume improvements. Nevertheless, strong sales were recorded by the Antimicrobials and Fabric Processing and Finishing businesses. The Home and Personal Care business maintained its high double-digit sales increase, with Whiteners steadily recovering in the second quarter after a weak start to the year.

The Eastern Hemisphere and, albeit only in local currencies, Latin America reported gratifying sales increases. Sales in North America and Europe remained below those posted last year.

The division's operating income of CHF 63 million reflects the fact that sizable portions of the division's sales occur in countries, such as in Latin America, where currencies have suffered strong de-valuations. The result also reflects costs related to the build-up of a leading Fabric Processing and Finishing business. The division incurred additional expenses because of first steps towards building a life-science molecules franchise as part of the Home and Personal Care business, one of Ciba's growth businesses.

For the full year, the division expects results that lie slightly below 1998 levels.

Performance Polymers

In line with the new strategic focus on profitable growth, sales of lower value-added products continued to decline while those of specialties increased. Sales totalled CHF 846 million, down 10 percent in Swiss francs and 8 percent in local currencies. The sales decrease was primarily attributable to volume mix and price declines. While Structural Composites showed flat sales, other business units recorded lower sales compared with last year's strong first half. Geographically, sales grew in the Eastern Hemisphere but declined in Europe and the Western Hemisphere.

Operating income totalled CHF 62 million, compared with CHF 26 million in the first half of last year. The shift in product mix, coupled with decisive cost management in production and administration, led to a significant improvement in profit margins. This underscores the success of the restructuring project that was initiated last year and has been largely completed.

The division expects to continue its return to profitability and will achieve clearly better results in 1999 than in 1998, although not at 1997 levels.

Outlook

Ciba Specialty Chemicals' first-half results on a comparable basis recovered noticeably from the second half of 1998 and the beginning of 1999. The Company expects its operating income to continue improving in the second half of 1999, though this result will be unable to compensate for the difficult first half, in part because of lower income from Hexcel. Ciba is nevertheless convinced that the industry is emerging from its lows, especially in view of a moderate improvement in the economic environment.

The Company is also convinced that business is improving. Operational initiatives are delivering benefits and are expected to support margins further during the remainder of the year. Assuming the improvement in the business climate continues, full-year sales are expected to be marginally higher than in 1998. Given ongoing margin pressure and effects such as Hexcel's weaker result, Ciba continues to expect a decline in the EBITDA margin in 1999 by 1 percentage point or somewhat more as compared with the full year 1998. This also is expected to lead to lower earnings per share. In general, however, if the trend of an improved business climate continues, the Company would expect to see a recovery in its results in 2000.

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 (unaudited)

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

Six months ended June 30,	1999	1998
Net sales	**4 374**	4 286
Cost of goods sold	**3 043**	2 920
Gross profit	**1 331**	1 366
Selling, general and administrative	**796**	741
Research and development	**157**	153
Amortisation of goodwill	**41**	23
Income from earnings of equity affiliates	**(21)**	(41)
Restructuring and special charges	**0**	1 060
Operating income (loss)	**358**	(570)
Interest expense	**(164)**	(151)
Interest income	**14**	18
Other financial income (expense)	**(22)**	(8)
Income (loss) before income taxes	**186**	(711)
Provision for income taxes	**65**	80
Net income (loss)	**121**	(791)[a]
Per share data:		
Basic earnings (loss) per share	**1.82**	(11.93)[a]
Diluted earnings (loss) per share	**1.82**	(11.93)[a]
Weighted average shares outstanding (in millions):		
Basic	**66.5**	66.3
Diluted	**66.5**	66.3

[a] For the six months ended June 30, 1998, net income before restructuring and special charges was CHF 258 million and basic and diluted earnings per share, before restructuring and special charges, was CHF 3.89 and CHF 3.88, respectively.

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets
(in millions of Swiss francs)

	(unaudited) June 30 1999	December 31 1998
Assets		
Current assets		
Cash and cash equivalents	**246**	206
Short-term investments	**47**	47
Accounts receivable, net of allowances	**1 614**	1 416
Inventories	**2 088**	2 053
Prepaid and other current assets	**723**	819
Total current assets	**4 718**	4 541
Property, plant and equipment, net	**4 455**	4 396
Goodwill and other intangible assets, net	**2 314**	2 258
Financial investments	**597**	602
Other assets	**663**	547
Total assets	**12 747**	12 344
Liabilities and Shareholders' equity		
Current liabilities		
Accounts payable	**689**	587
Short-term debt	**1 814**	1 905
Income taxes payable	**39**	22
Accruals and other current liabilities	**803**	1 085
Total current liabilities	**3 345**	3 599
Long-term debt	**4 171**	3 648
Deferred income taxes	**217**	227
Other liabilities	**1 635**	1 577
Total liabilities	**9 368**	9 051
Total shareholders' equity	**3 379**	3 293
Total liabilities and shareholders' equity	**12 747**	12 344

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions of Swiss francs)

Six months ended June 30,	**1999**	1998
Cash flows from operating activities before restructuring payments(1)	**258**	266
Cash used for restructuring payments	**(141)**	(120)
Cash used in investing activities(2)	**(45)**	(3 823)
Cash (used in) provided by financing activities	**(51)**	3 475
Effect of exchange rate changes on cash and cash equivalents	**19**	4
Net increase (decrease) in cash and cash equivalents	**40**	(198)
Cash and cash equivalents, beginning of year	**206**	644
Cash and cash equivalents, end of June	**246**	446

(1) Depreciation and amortisation during the first six months of 1999 amounted to CHF 253 million (first six months 1998: CHF 222 million).
(2) Investments in property, plant and equipment during the first six months of 1999 amounted to CHF 141 million (first six months 1998: CHF 182 million). On April 1, 1998, the Company completed the acquisition of all outstanding common shares of Allied Colloids, a leading company in the water treatment additives field, for CHF 3 615 million.

See Notes to Condensed Consolidated Financial Statements

Condensed Business Segment Data (unaudited)
(in millions of Swiss francs)

Six months ended June 30,	**1999**	1998
Net sales		
Additives	**1 670**	1 390
Additives (excluding Water Treatments)	***1 167***	*1 143*
Water Treatments[1]	***503***	*247*
Colors	**1 172**	1 245
Consumer Care	**686**	707
Performance Polymers	**846**	944
Total net sales	**4 374**	4 286
Operating income		
Additives	**212**	250
Additives (excluding Water Treatments)	***194***	*225*
Water Treatments[1]	***18***	*25*
Colors	**94**	159
Consumer Care	**63**	83
Performance Polymers	**62**	26
Corporate and other expenses	**(73)**	(28)
Restructuring and special charges	**0**	(1 060)
Total operating income (loss)	**358**	(570)
EBITDA[2]		
Additives	**305**	331
Additives (excluding Water Treatments)	***256***	*285*
Water Treatments[1]	***49***	*46*
Colors	**155**	217
Consumer Care	**90**	110
Performance Polymers	**94**	57
Corporate	**(33)**	(3)
Total EBITDA[2]	**611**	712

(1) The 1998 financial data for Water Treatments are presented for the three-month period since April 1, 1998, the date of the Allied Colloids acquisition.
(2) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is calculated as operating income before restructuring and special charges plus depreciation and amortisation.

As of June 30, 1999, the Company had four reportable segments: Additives, Colors, Consumer Care, and Performance Polymers. The Company's reportable segments are divisions that develop, manufacture and market different products and services. They are managed separately because each division requires different technology and marketing strategies. The same accounting policies are consistently applied across the Company. 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 price.

In continuation of its programme to realign its businesses, the Company announced, in January 1999, the formation of an enlarged Additives division by combining the Company's water treatments operations with the Company's additives business. This strategic realignment is intended to better utilise 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 condensed 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 colours 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 following table provides financial data for the Inks, Paints and Plastics and Textiles business units:

Six months ended June 30, 1999	Inks, Paints and Plastics	Textiles	Colors
Sales	628	544	1 172
Operating income	67	27	94
EBITDA	89	66	155
Six months ended June 30, 1998			
Sales	636	609	1 245
Operating income	123	36	159
EBITDA	152	65	217

The segment data for 1998, as previously reported, has been restated to conform with the effects of the divisional realignments.

Notes to Condensed Consolidated Financial Statements (unaudited)
(in millions of Swiss francs, except per share data)

1. Basis of Presentation

These condensed consolidated financial statements have been prepared from the unaudited records of Ciba Specialty Chemicals Holding Inc. and its subsidiaries (the "Company") in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and accordingly, do not include all information and footnotes required by U.S. GAAP for complete financial statements. For further information refer to the Notes to Consolidated Financial Statements included in the Financial Review of the 1998 Annual Report. In the opinion of management, all adjustments considered necessary to present fairly the consolidated statements of income, balance sheets and cash flows for the interim periods presented have been included. Beginning in 1999, amortisation of goodwill, which was previously included as a component of selling, general and administrative expenses, is presented as a separate line in the Consolidated Statements of Income. Amounts reported for previous periods have been reclassified to conform to the 1999 presentation.

2. Restructuring

During 1998, the Company incurred net restructuring and special charges of CHF 1 147 million of which CHF 1 060 million was recorded in the first half of 1998. 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. The remaining net restructuring and special charges related to the strategic realignment of the Company's business which included the formation of the Colors division, the profit recovery programme of the Performance Polymers division, the integration of Water Treatments, and the completion of the supply chain replacement project commenced in 1996. Thereof, approximately CHF 121 million were for separation payments to be made to approximately 1 100 employees or full-time equivalents ("FTE's"), whose positions were eliminated, principally in the administration, sales and marketing functions. The remaining charges related to other costs incurred for the reorganisation of administration functions, streamlining of the supply chain and systems integration. Since the inception of the programme, 931 employees or FTE's have been separated with cash expenditures totalling approximately CHF 92 million.

The total provision for restructuring recorded at December 31, 1998 was CHF 346 million. In the first half of 1999, CHF 175 million of the provision was utilised, of which CHF 141 million was in cash, resulting in an ending provision of CHF 171 million. Management believes that this provision is adequate to complete all of its restructuring plans.

3. Debt

On January 21, 1998, the Company entered into a CHF 4 000 million multicurrency revolving loan agreement to finance the acquisition of Allied Colloids. This loan bears interest at LIBOR plus 22.5 basis points and expired on July 21, 1999. During 1998, the Company issued long-term debt and, in view of these debt issuances, reduced the commitments under the revolving loan agreement to CHF 800 million. On July 12, 1999, the Company refinanced the CHF 450 million (USD 296 million) outstanding under this facility with a CHF 600 million multicurrency revolving loan agreement. This loan bears interest at LIBOR plus 21.5 basis points and expires on July 11, 2002. A commitment fee of 0.10% per annum is paid on the average unused facility.

The CHF 300 million multicurrency standby facility with a major Swiss bank 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.

In April 1999, the Company issued CHF 300 million straight bonds, due 2009, with a 3.25% fixed interest rate.

4. Earnings per share

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

Six months ended June 30,	**1999**	1998
Net income (loss)	**121**	(791)
Weighted average shares outstanding:		
Basic	**66 453 717**	66 288 043
Add incremental shares from stock option plans	**4 262**	0
Diluted	**66 457 979**	66 288 043
Earnings (loss) per share:		
Basic	**1.82**	(11.93)
Diluted	**1.82**	(11.93)

For the six months ended June 30, 1999, 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 addition, the calculation of diluted earnings per share excluded 418 253 stock options 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 six month period.

For the six months ended June 30, 1998, 139 636 incremental shares from stock option plans were excluded from the diluted earnings per share calculation as their effect was antidilutive.

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

5. Comprehensive Income

The components of comprehensive income (loss) for the six-month period ended June 30, 1999 and 1998 are as follows:

Six months ended June 30,	**1999**	1998
Net income (loss)	**121**	(791)
Currency translation adjustment	**96**	33
Unrealised (loss) gain on available-for-sale securities, net of tax	**(6)**	10
Total comprehensive income (loss)	**211**	(748)

6. 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 condensed 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 of Ciba-Geigy's Specialty Chemicals business into the Company, the Company and Novartis 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.

The separation of the business and the spin-off from Novartis could lead to tax liabilities in Germany and certain other countries, which are currently not quantifiable. In management's opinion, such potential tax liabilities will not ultimately result in a material adverse effect on its consolidated financial position. In arriving at this conclusion, management has considered, among other things, the Master Spin-off Agreement with Novartis which provides that Novartis is responsible for taxes contemplated under the Master Spin-off Agreement (subject to certain exceptions). Management believes that no such exception is applicable to the potential tax liabilities discussed above.

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As a specialty chemicals company, Ciba's businesses produce high-value effects for our customers' products. With a vision to shape the industry, our success is driven by innovation, with a significant commitment to research and development.

In more than 60 sites worldwide, our employees are committed to making quality products that add value for our customers and shareholders. As a global leader in the industry, we bring new and creative thought to the processes and products of our customers in 117 countries.

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