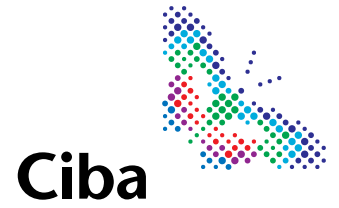


Ciba Specialty Chemicals

Financial Review 2000



Contents

- 1 Financial Highlights**
- 2 Management's Discussion and Analysis of
Financial Condition and Results of Operations**

- Consolidated Financial Statements**
- 16 Consolidated Statements of Income
- 17 Consolidated Balance Sheets
- 18 Consolidated Statements of Cash Flows
- 19 Consolidated Statements of Shareholders' Equity
- 20 Business Segment Data
- 22 Geographic Data
- 23 Notes to Consolidated Financial Statements
- 37 Independent Auditors' Report

- 38 Summary of Selected Financial Data**
- 40 Major Consolidated Subsidiaries and
Associated Companies**
- 42 Ciba Specialty Chemicals Holding Inc.
Financial Statements**
- 44 Glossary of Financial Terms**

Financial Highlights

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

Year ended December 31,	2000	1999
Net sales	7 902	7 244
Operating income from continuing operations	876	632
Income from continuing operations	418	238
Net income from discontinued operations, net of tax	34	87
Net income	452	325
Basic and diluted earnings per share:		
From continuing operations per share	6.31	3.58
Net income per share	6.81	4.89

Financial data before restructuring and special charges

Operating income from continuing operations	878	632
Income from continuing operations	420	238
Net income	454	325
Basic and diluted earnings per share	6.84	4.89
Cash flows from operating activities, before restructuring payments ⁽¹⁾	1 065	1 054
Capital expenditures	249	267
Research and development expenditures	293	256
Number of employees at year end	20 306	20 117
Net sales growth percentage	9%	9%
Net sales growth percentage, in local currencies	2%	8%
EBITDA	1 348	1 086
EBITDA margin	17.1%	15.0%
Velocity	0.80	0.75

⁽¹⁾ From continuing operations.

See Glossary of Financial Terms

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Year in Review – 2000 Compared to 1999

Results of operations	2000	1999
Net sales	7 902	7 244
Gross profit	2 569	2 288
Operating income	876	632
Income from continuing operations	418	238
Net income	452	325
EBITDA, before restructuring and special charges ⁽¹⁾	1 348	1 086
Restructuring and special charges	2	0
Operating cash flow ⁽²⁾	1 065	1 054
Shareholders' equity at year end	3 754	3 638
Dividend per share	2.00 ⁽³⁾	2.00
Key performance ratios		
Sales growth	9%	9%
Expressed as a percentage of sales:		
Gross profit	32.5%	31.6%
Operating income	11.1%	8.7%
Income from continuing operations	5.3%	3.3%
Net income	5.7%	4.5%
EBITDA, before restructuring and special charges	17.1%	15.0%

⁽¹⁾ Including restructuring expenses and special charges of CHF 2 million in 2000, EBITDA was CHF 1 346 million.

⁽²⁾ From continuing operations. Including restructuring payments of CHF 35 million in 2000 and CHF 148 million in 1999, operating cash flows from continuing operations were CHF 1 030 million and CHF 906 million, respectively.

⁽³⁾ The 2000 dividend per share reflects the dividend payment proposal to be made at the shareholders' meeting in 2001, based on 2000 results, and is subject to shareholder approval.

The discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations is based on, and should be read in conjunction with, the Consolidated Financial Statements and the Notes thereto, which are prepared in accordance with U.S. GAAP and are included elsewhere in this Financial Review. For a definition of certain financial terms used herein, see "Glossary of Financial Terms" at the end of this Financial Review. Except for percentages, share, per share data or exchange rate data and except as otherwise stated, all numbers in tables are in millions of Swiss francs (CHF).

Introduction

To facilitate a meaningful analysis and interpretation of the Company's results, this Management's Discussion and Analysis of Financial Condition and Results of Operations focuses on discussion and analysis of the results of continuing operations, which excludes the results of the Performance Polymers operations, which have been reported as discontinued operations for the years 1999 and 2000, until May 31, 2000, the date of the divestment (see Note 3 to the Consolidated Financial Statements).

In certain sections of this Management's Discussion and Analysis, the reported results have been adjusted to exclude the restructuring and special charges. In addition, one time gains and non-recurring expenses have been highlighted and commented upon in order to facilitate comparability of ongoing business performance.

Currency Trends

The average exchange rates for the major currencies used to translate the consolidated statement of income into Swiss francs were significantly different in 2000 as compared to 1999. The appreciation in the average rate for the U.S. dollar (USD), the British pound (GBP) and the Japanese yen (JPY) against the Swiss franc was slightly offset, however, by the depreciation of the Euro. With respect to the U.S. dollar, the average rate used for translating the statement of income was CHF 1.69 per USD in 2000, as compared to CHF 1.50 per USD in 1999.

With the exception of the U.S. dollar, which appreciated substantially against the Swiss franc, the December 31, 2000 year-end currency exchange rates for the major currencies used in translating the Company's consolidated balance sheet into Swiss francs depreciated against the Swiss franc, as compared to December 31, 1999. The appreciation of the U.S. dollar against the Swiss franc was partly offset, however, by the depreciation in the British pound, the Japanese yen and the Euro against the Swiss franc.

These currency trends resulted in currency effects on the Swiss franc statement of income and to a lesser extent on the Swiss franc balance sheet items.

For further discussion on the effect of different year-end exchange rates and information on the Company's currency risk management, see "Effective treasury management", "Consolidated balance sheet", "Liquidity and capital resources" and "Supplemental Information – Market rise due to fluctuating foreign currency exchange rates and interest rates" of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Use of Certain Supplementary Financial Indicators

The following comparative discussion of the results of operations and financial condition of the Company includes, among other items, an analysis of a number of non-U.S. GAAP financial indicators that form part of the Company's value based management reporting system and that are used by management for purposes of analyzing the results of operations and financial condition of the Company. These financial indicators are derived from U.S. GAAP financial items. Such indicators include EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), velocity and economic profit. For a definition of these terms and other financial terms, see "Glossary of Financial Terms" at the end of this Financial Review.

Management is of the opinion that these financial indicators are an important measure of comparative operating performance of the businesses of the Company and, in the case of EBITDA, when used in comparison to debt levels or the coverage of interest expense, as a measure of financial stability. However, these supplementary financial indicators should be considered in addition to, and not as a substitute for, operating income, net income, cash flow and other measures of financial performance and liquidity reported in accordance with U.S. GAAP.

Overview

Market conditions in the Company's customer industries in 2000 were characterized, for most of the year, by the continuation of the improved economic environment, which commenced in the second half of 1999. Many European markets, fueled in part by the weakness of the Euro against the U.S. dollar, continued to improve throughout 2000. In the United States, a slow-down in market demand was noted near the end of the year 2000.

In Asia, the Japanese market has not fully recovered from its lows of 1999, remaining sluggish throughout 2000. In other Asian markets, there was a continuation throughout most of 2000 of the steady growth that began in the second half of 1999. Market demand in Brazil and Mexico remained at high levels during the entire year.

Operational review

Profitable growth through innovation, customer focus and continuing operational improvements

Net sales in 2000 at CHF 7 902 million grew 9 percent in Swiss francs and 2 percent in local currencies compared to the previous year. The Company's gross profit increased in 2000 to CHF 2 569 million or 32.5 percent of sales from CHF 2 288 million or 31.6 percent of sales in 1999. Operating income improved in 2000 to CHF 876 million or 11.1 percent of sales from CHF 632 million or 8.7 percent of sales in 1999. Net income in 2000 increased to CHF 452 million or CHF 6.81 per share from CHF 325 million or CHF 4.89 per share in 1999. The Company's EBITDA and EBITDA margin, before restructuring and special charges, increased to CHF 1 348 million and 17.1 percent, respectively, in 2000 compared to CHF 1 086 million and 15.0 percent, respectively, in 1999.

Favorable currency conditions, particularly the strengthening of the U.S. dollar and the Japanese yen against the Euro and the Swiss franc, contributed 7 percent to the total sales growth in 2000. The Company's continued focus on innovation and meeting customer needs led to an increase in net sales in 2000, contributing to the 5 percent volume and product mix increase. Pricing pressure continued in many of the Company's markets. Selective price increases, however, helped to contain price erosion, ending the year with a negative 3 percent price effect on net sales. In all divisions, volume growth continued to outpace price reductions.

The combination of volume growth and product mix changes coupled with continuing operational efficiency improvements more than compensated for selling price reductions and modest raw material price increases leading to higher profits in both absolute and intensity terms.

Hexcel Corporation ("Hexcel"), the Company's major equity affiliate, realized a one time gain in 2000 on the sale of its Bellingham aircraft business. The Company's share of this gain, recorded in the line "income from earnings of equity affiliates", amounted to CHF 57 million. This one time gain was, however, offset by a number of non-recurring expenses relating primarily to a thorough review of the Company's liabilities, including environmental liabilities, and an increase in performance based compensation expenses. In addition, in the fourth quarter the Company realized a gain of CHF 71 million from the sale of its majority stake in Hexcel, which is included in the line "restructuring and special charges" in the 2000 Consolidated Statement of Income. A number of restructuring and special charges relating to business reorganizations and anticipated impairments of equity affiliates amounted to CHF 73 million. Overall, the one time gains described in this paragraph were offset by non-recurring expenses, resulting in only a small net effect on the Company's income.

The Company announced several restructuring initiatives in the fourth quarter of 2000. These initiatives were driven by the Company's focus on improving its overall operational efficiencies and by the deteriorating external market conditions, especially in the United States. The initiatives primarily included the closure of a

Water Treatments facility in the United States, the reduction of Additives and Consumer Care headcount at a shared production facility in the United States and the reorganization of the administrative functions of the Company's Southern Europe organization. The closure of the Water Treatments facility will improve efficiencies across the business unit as well as in other United States based manufacturing facilities, improving operating margins and market competitiveness. The Additives, Consumer Care and Southern Europe programs are designed to reduce operating costs in response to the reduced infrastructure requirements resulting from the sale of the Performance Polymers business.

The fourth quarter

Net sales in the fourth quarter 2000 at CHF 1 917 million grew 1 percent in Swiss francs and decreased 4 percent in local currencies compared to the fourth quarter of the previous year. Operating income decreased to CHF 188 million or 9.8 percent of sales from CHF 197 million or 10.4 percent of sales in the fourth quarter of 1999. Net income in the fourth quarter 2000 was flat at CHF 123 million compared to CHF 126 million for the comparable period in 1999.

Despite the fact that sales development was adversely affected by the slowdown towards the end of the year of the United States economy, the Company was still able to maintain its net income at prior year levels. This was primarily due to continued effective raw material procurement, tight control over costs and the improved financing structure of the company, which led to lower net interest expenses.

Strategic focus on innovation

The Company continued its strategic initiatives of innovation and development of environmentally friendly products. Significant investments in research and development underscore the importance of innovation as a key success factor. The Company's research and development program continued to focus on generating new business and defending leading market positions. Research and development expenses as a percentage of sales were 3.7 percent in 2000 compared to 3.5 percent in 1999. In absolute terms, research and development expenses increased by CHF 37 million to CHF 293 million in 2000 compared to CHF 256 million in 1999, an increase of 15 percent in Swiss francs or 12 percent in local currencies.

The Company continues to optimize its business portfolio through selective acquisitions and divestments to strengthen its focus on core businesses and improve profitability

The most significant portfolio change was the completion on May 31, 2000 of the sale of the Performance Polymers business to Vantico, a company established by Morgan Grenfell Private Equity, the private equity arm of Deutsche Bank AG, and to certain Asian joint venture parties. Total gross proceeds from the sale were CHF 1.6 billion, which includes net debt assumed of approximately CHF 160 million. This divestiture underscores the Company's strategy of focusing its portfolio on specialty chemicals rather than specialty materials. The Performance Polymers business that was sold comprised substantially all of the previously reported Performance Polymers division. The Company realized a net gain from discontinued operations of CHF 34 million, after consideration of the Performance Polymers business operating results through May 31, 2000, the results of the divestment transaction taxes and the costs of selling the business.

In the first half of 2000, the Company concluded the acquisition of Prochimica s.r.l. for a total purchase price of approximately CHF 85 million. This acquisition, by the Additives division, secures an uninterrupted supply of key photoinitiators and supports the already high EBITDA margins of the division.

In the second half of 2000, the Company concluded the acquisition of certain paper-chemical product lines and technology from Cytec Industries for a total purchase price of approximately CHF 40 million (USD 23 million). This acquisition complements and expands the Company's product offerings to the paper industry, one of its strategic industry segments.

In December 2000, the Company sold approximately 81 percent or 14 525 000 shares of its holdings in its most significant equity affiliate, Hexcel, to an investor group led by Goldman Sachs for CHF 277 million (USD 160 million). This divestment underscores the Company's strategy to exit joint ventures which have little strategic fit with its core business. Hexcel is focused on the sale of specialty materials and not on specialty chemicals. As a result, after the sale of the Performance Polymers business, this investment no longer supported or supplemented the growth of the Company's remaining core businesses and therefore, divestment steps were undertaken.

Cash flows higher due to operational improvements and divestment activities

Continued improvements in net income and effective asset management led to a growth in cash flows provided by continuing operations to CHF 1 065 million in 2000 as compared to CHF 1 054 million in 1999, before restructuring payments of CHF 35 million in 2000 and CHF 148 million in 1999. This reflects high levels of net income and successful asset management. The Company's focus on tight asset management continued to show positive results with both inventories and accounts receivable, expressed as a percentage of sales, below the levels achieved in 1999.

The combination of the effects from the Company's net business portfolio changes and the continued emphasis on cost effective capital expenditures contributed to increased cash flows from investing activities in 2000, providing cash of CHF 1 271 million, compared to a use of cash in 1999 of CHF (131) million. It should be noted, however, that certain cash payments relating to separation costs arising from the Polymers divestment have not yet been made. The Company estimates that cash payments relating to these separation costs will amount to approximately CHF 270 million during 2001. Thereafter cash payments will be less significant.

As a result of continued operating cash flows in excess of one billion Swiss francs, and the positive contributions to cash from divestment activities, the level of free cash flow improved to CHF 2 169 million compared to CHF 816 million in 1999. Free cash flow was used, when economically advantageous to the Company, for debt repayment and for small strategic acquisitions. Excluding the effects of acquisitions and divestments, free cash flow would have been CHF 603 million compared to CHF 746 million in 1999.

Financial review

Strong volume growth in positive economic environment through most of the year

Sales increased to CHF 7 902 million in 2000 or by 9 percent in Swiss francs and by 2 percent in local currencies. Sales growth compared to 1999 resulted from the following factors:

Consolidated sales	2000 compared to 1999
Volume/product mix	5%
Price	(3)%
Currency	7%
Total in Swiss francs	9%

The strong volume growth and the positive economic environment, which began during the second half of 1999, continued through most of 2000. The Company's global market presence, selective price increases and favorable currency effects enabled the Company to benefit from the positive economic environment. Price declines arose from competitive conditions in certain markets. In addition, during 2000 prices were negatively impacted for products delivered into regions such as the United States where, due to the recent appreciation of the U.S. dollar, customers were demanding a share of the suppliers' currency gains. Sales grew in all divisions and volume growth in all divisions outpaced price declines. The economic environment did, however, begin to show signs of weakness late in the fourth quarter of 2000.

Sales increases were posted in all the major markets in **Europe**, both in Swiss francs and in local currencies, with the exception of the United Kingdom where sales declined slightly in local currency. In the **Western Hemisphere**, sales increased in Swiss francs but remained flat in local currencies. The sales development during the year was characterized by a strong first half, followed by a slowdown in the second half, particularly in the United States. As a consequence of this economic slowdown, noted in the fourth quarter of 2000, sales in the United States declined in local currency. In the **Eastern Hemisphere**, sales increases were posted by most major markets both in Swiss francs and in local currencies, with the exception of Japan where sales declined in local currency. In the China Region and in the Rest of Asia strong sales growth was posted in both Swiss francs and in local currencies.

Geographic sales distribution	2000	1999
Europe	37%	39%
Western Hemisphere ⁽¹⁾	37%	36%
Eastern Hemisphere ⁽²⁾	26%	25%

⁽¹⁾ The Western Hemisphere is comprised of North, Central and South America.

⁽²⁾ The Eastern Hemisphere is comprised of Asia, Africa, the Middle East, Australia and New Zealand.

Profit margins improve

Gross profit margin improved to 32.5 percent of sales compared to 31.6 percent in the prior year. This improvement reflects the impact of strong volume growth and product mix changes coupled with improvements in production and process efficiencies, which led to an increase in overall capacity utilization. These positive factors more than compensated for both the reductions in selling prices and the 2 to 3 percent increase in raw material prices. This relatively stable increase in raw material prices, in comparison to overall market conditions, was achievable due to the Company's ability to optimize procurement of raw materials by purchasing supplies globally through its worldwide organization and relationships. This global reach allows the Company to take advantage of availability of supply as well as favorable foreign currency movements. In addition, the margin benefited from the impact of the U.S. dollar strengthening against the Euro in 2000, as the Company has a higher proportion of its production costs than its sales concentrated in Europe.

Despite ongoing investments in the future and unfavorable foreign currency effects, costs decrease as a percentage of sales

Selling, general and administrative expenses expressed as a percentage of sales decreased from 18.5 percent in 1999 to 18.0 percent in 2000. In absolute terms, selling, general and administrative expenses increased by CHF 84 million to CHF 1 425 million, compared to CHF 1 341 million in 1999, an increase of 6 percent in Swiss francs but only 2 percent in local currencies. Despite only modest cost increases in local currencies, foreign exchange currency movements led to higher annual costs when these local costs were translated into Swiss francs. Apart from this large foreign exchange currency movement effect, a number of other factors affected expenses. The Company conducted a thorough review of its liabilities, including environmental liabilities, to ensure that all known and quantifiable liabilities were adequately provided for and disclosed. Continued focus on future growth, through investments in promising new technologies, together with a number of smaller initiatives relating to streamlining operations, also increased costs. In addition, an improved business performance in 2000 resulted in higher employee compensation costs, as compensation levels are partly linked to achieving performance targets. These cost increases were offset by a number of cost reductions, which resulted from the completion of key reorganizations and business improvement initiatives implemented by the Company over the past several years. Overall, the Company was able to improve its selling, general and administrative expenses to sales ratio by a structural half percentage point.

Continuing commitment to research and development

Research and development expenses as a percentage of sales were 3.7 percent in 2000 compared to 3.5 percent in 1999. In absolute terms, research and development expenses increased by CHF 37 million to CHF 293 million in 2000 compared to CHF 256 million in 1999, an increase of 15 percent in Swiss francs or 12 percent in local currencies.

The Company has historically invested and plans to continue to invest approximately 3 to 4 percent of sales in research and development activities. The Company's research and development program focuses on generating new business and defending leading market positions by continuous innovation. The Company's research and development strategy is to enter both new and existing markets with innovative formulations and solutions which satisfy customer needs.

Some examples of entering new markets with new formulations are the development of textile dyes products for use in the manufacture of transparent colored plastics, which have many applications including in colorful translucent computers and notebooks and applying Water Treatments' nanocolloids technology in Home and Personal Care's detergent chemicals sector, thereby enhancing the products stain removal capability.

Innovative product range extensions and customer focused solutions within existing markets include improvements in the pre-blend business in Polymer Additives, where in-house or toll-manufactured additives are mixed and formulated to fulfill specific customer needs and pigment granules from the Inks, Paints and Plastics business unit that have been developed from pigment powder, thereby reducing dosage levels in the customers manufacturing process.

Also, the Company continues to develop new and improved manufacturing processes which are cost competitive and meet all environment, health and safety requirements.

Amortization of goodwill

Amortization of goodwill increased to CHF 86 million in 2000, an increase of CHF 12 million. This increase was primarily related to the additional goodwill amortization resulting from the current year business acquisitions.

Increased income from earnings of equity affiliates

Income from earnings of equity affiliates (investments in unconsolidated companies with greater than 20 percent and less than or equal to 50 percent ownership), before income taxes, increased to CHF 113 million in 2000 from CHF 15 million in 1999. The related income taxes on earnings of equity affiliates are recorded separately in the Company's provision for income taxes.

In 2000, income from earnings of equity affiliates was positively impacted by Hexcel. In 2000, the Company's share of Hexcel's income amounted to CHF 66 million as compared to a loss of CHF (17) million in 1999. Also included in Hexcel's 2000 income from earnings of equity affiliates is CHF 57 million, representing the Company's share of the gain recognized by Hexcel on the sale of its Bellingham Aircraft business.

In December 2000, the Company sold a majority of its interest in its investment in Hexcel. The Company realized a gain of CHF 71 million from this sale, which is included in the line "restructuring and special charges" on the Consolidated Statement of Income. For further discussion related to this sale, refer to the section "Restructuring and special charges, net" of this Management Discussion and Analysis of Financial Condition.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Profitable growth and operational improvements led to an increase in operating income and EBITDA

	2000	1999
Operating income (EBIT)	876	632
EBITDA	1 346	1 086
EBIT margin	11.1%	8.7%
EBITDA margin	17.0%	15.0%

Increase 2000 compared to 1999

Operating income (EBIT)	39%
EBITDA	24%

Before restructuring and special charges

	2000	1999
Operating income (EBIT)	878	632
EBITDA	1 348	1 086
EBIT margin	11.1%	8.7%
EBITDA margin	17.1%	15.0%

Increase 2000 compared to 1999

Operating income (EBIT)	39%
EBITDA	24%

Improved operating income and EBITDA is reflective of the profitable sales growth, the optimization of procurement of raw materials to minimize the impact of raw material price increases, favorable currency conditions and the effects of cost reductions which have been achieved from the completion of key reorganizations and business improvement initiatives implemented over the past several years.

As discussed above, operating performance in 2000 was affected by the equity income from Hexcel, which included the Company's share of the gain recognized by Hexcel on the sale of its Bellingham aircraft business, and by a number of non-recurring expenses recorded in selling, general and administrative expenses. The net effect of the one time gain and the non-recurring expenses is not material to the Company's income.

Restructuring and special charges, net

The Company evaluates the performance of its divisions' operating incomes before restructuring and special charges. Accordingly, restructuring and special charges are not included in the divisions' operating results.

In 2000, the Company incurred net restructuring and special charges of CHF 2 million. This charge includes a CHF 71 million gain from the sale of 14 525 000 shares of the Company's investment in Hexcel, at USD 11.00 per share, which represents approximately 81 percent of the Company's holdings (see Notes 3, 8 and 10 to the Consolidated Financial Statements). Also included is a charge of CHF 21 million related to the estimated impairment loss on certain of the Company's equity investments. The restructuring programs totaling CHF 52 million, comprise primarily the restructuring of Water Treatments operations in the United States, (mainly relating to the closure of a manufacturing facility), the reorganization of the Company's administration functions in Southern Europe and the reduction of personnel, principally at an Additives and Consumer Care manufacturing facility in the United States. Severance cost for approximately 238 full-time equivalents ("FTEs") included in the 2000 restructuring charge resulted from the elimination of positions in the United States and Southern Europe, principally in administration, sales and marketing functions and in the manufacturing function in the United States. As of December 31, 2000, no terminations have occurred. The terminations and restructuring programs are expected to be substantially completed during 2001.

The costs and activity associated with the current year restructuring programs are summarized below:

2000	Severance costs	Other costs	Total
Restructuring expense	30	22	52
Amounts utilized	0	0	0
December 31,	30	22	52

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

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. These programs were completed in 1999.

In 2000, the Company completed all of its outstanding restructuring programs that were announced in prior years (see Note 10 to the Consolidated Financial Statements).

Additives division results

Additives division results excluding Water Treatments

Sales increased to CHF 2 644 million in 2000 or by 9 percent in Swiss francs and by 2 percent in local currencies. Sales growth compared to 1999 resulted from the following factors:

Sales development	2000 compared to 1999
Volume/product mix	6%
Price	(4)%
Currency	7%
Total in Swiss francs	9%

Additives sales were marked by strong volume growth through most of the year. This sales development reflects the positive economic environment during the first nine months of the year, followed by the expected slowdown in the United States economy towards the end of the year. In addition, some price erosion was caused by customers located in strong currency regions, such as the United States, who purchase products manufactured in weaker currency regions, such as the Euro region, requesting a share of the suppliers' currency gains.

The division realized sales growth in Polymer Additives, and particularly in Lubricant Additives, both in Swiss francs and local currencies. The results were driven by continuing innovation in meeting customer needs and by favorable global market conditions. Imaging and Coating Additives' sales were strong in the first half of the year but were unfavorably affected by a slowdown in the United States automotive industry in the fourth quarter. However, electronics coatings showed promising sales growth.

Geographically, in **Europe**, a strong performance was posted in most major markets. In the **Western Hemisphere**, sales were strong in South and Central America, both in Swiss francs and in local currencies. Sales in North America decreased moderately in local currencies, but, increased in Swiss francs due to the strengthening of the U.S. dollar. In the **Eastern Hemisphere**, strong sales performances were posted in most major Asian markets in both Swiss francs and in local currencies.

Operating income	2000	1999
Absolute in CHF	483	411
As a percentage of sales (EBIT margin)	18.3%	16.9%
EBITDA		
Absolute in CHF	627	533
EBITDA margin	23.7%	22.0%

Operating income and EBITDA improved to CHF 483 million and CHF 627 million, respectively. This growth was largely attributable to higher sales and continued improvement in operational efficiency. In addition, raw material price increases were minimized as a result of favorable currency effects in the procurement process. The integration of Prochimica s.r.l., the Company's former key photoinitiator supplier, which was purchased in March 2000, has started to positively contribute to the division's results. In addition, as relatively more production costs as compared to sales are incurred in Europe the prevailing Euro and Swiss franc weakness relative to the U.S. dollar and the Japanese yen positively impacted the results. EBIT margin and EBITDA margin rose to 18.3 percent and 23.7 percent, respectively.

In anticipation of the changing market conditions in the United States, a reorganization of the division's McIntosh manufacturing plant was initiated to reduce costs and to meet the expected future manufacturing requirements.

Asset management	2000	1999
Net current operating assets:		
Absolute in CHF	606	575
As a percentage of sales	23%	24%
Net assets (Invested capital) in CHF	1 936	1 790
Velocity	1.41	1.39

In 2000, the division successfully maintained its good asset management record. While in intensity terms, inventories remained almost stable, accounts receivable improved considerably. The division's net assets in 2000 decreased, after adjusting for the increased fixed assets, intangible assets and goodwill acquired in connection with the acquisition of Prochimica s.r.l.

Velocity improved to 1.41 from 1.39 in 1999, as a result of higher sales and consistent improvements in the efficiency and effectiveness of net current operating assets and in particular due to the implementation of demand flow technology, which improved the management of inventories and improved customer service levels.

Water Treatments business unit results

Sales increased to CHF 1 096 million in 2000 or by 8 percent in Swiss francs and by 1 percent in local currencies. Sales growth compared to 1999 resulted from the following factors:

Sales development	2000 compared to 1999
Volume/product mix	4%
Price	(3)%
Currency	7%
Total in Swiss francs	8%

The growth in Paper Technology sales reflects the continuing upturn in the global paper industry. Sales in Pollution Control faced continuing competitive pressure on prices, especially with respect to the highly regulated municipal pollution control market. Extractive Industries sales also increased significantly, as a result of increased drilling activity, fueled by continuing high price levels for oil.

Geographically, in **Europe** sales growth in most major markets were posted in Swiss francs and were stable to slightly higher in local currencies. In the **Western Hemisphere**, sales increased in most major markets, in both Swiss francs and in local currencies, except for the United States, which posted a moderate decline in local currency. In the **Eastern Hemisphere**, sales increased in the major Asian markets, in both Swiss francs and in local currencies.

Operating income	2000	1999
Absolute in CHF	78	50
As a percentage of sales (EBIT margin)	7.1%	4.9%
EBITDA		
Absolute in CHF	136	114
EBITDA margin	12.4%	11.2%

Operating income of CHF 78 million and EBITDA of CHF 136 million in 2000 reflect an improvement compared to the 1999 results. This is largely due to re-organization programs introduced in the first half-year of 1999, which continue to yield positive results. More actions have been initiated to further improve operational performance. The Water Treatments business supply chain is currently being merged with the Additives division supply chain which will further improve efficiency through the sharing of infrastructure and skills. This integration will be completed during the first half of 2001. In the fourth quarter 2000 the Company announced that it will reorganize its Water Treatments business in the United States. This is in response to more difficult market conditions in that region and the need to reorganize the Water Treatments business unit in order to assure continued profitability. The program includes the closure of the Old Bridge manufacturing facility and the streamlining of logistics and manufacturing processes at other facilities. This initiative will improve efficiencies across the business unit and in other United States based manufacturing facilities, improving operating margins and market competitiveness.

Asset management	2000	1999
Net current operating assets:		
Absolute in CHF	269	267
As a percentage of sales	25%	26%
Net assets (Invested capital) in CHF	870	888
Velocity	1.25	1.12

Water Treatments investment in net assets remained relatively stable in 2000. In intensity terms, net current operating assets improved by one percentage point. This resulted from an improvement in intensities of accounts receivable and accounts payable.

Velocity improved to 1.25 from 1.12 in 1999. The improvement resulted from an increase in sales and stable investment in net current operating assets compared to 1999. The reduction of net assets was primarily due to lower investments in long-term assets and an increase in accounts payable.

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

Colors division results

Sales increased to CHF 2 620 million in 2000 or by 9 percent in Swiss francs and by 3 percent in local currencies. Sales growth compared to 1999 resulted from the following factors:

Sales development	2000 compared to 1999
Volume/product mix	6%
Price	(3)%
Currency	6%
Total in Swiss francs	9%

Sales in the Colors for Inks, Paints and Plastics business unit increased both in Swiss francs and local currencies. In particular, sales continued to be strong in publication inks, decorative paints, powder coatings and coil coatings. This positive development is a result of strong volume growth combined with moderate price declines. Colors for Textiles business unit also showed strong growth throughout most of the year, continuing the sales recovery that began in the third quarter of 1999. The increase in sales was noted in all major dyeing segments.

Geographically, **Europe** posted higher sales in Northern and Southern Europe in both Swiss francs and local currencies. In the **Western Hemisphere**, sales were higher in Central and South America in both Swiss francs and in local currencies. In North America, sales were higher in Swiss francs and decreased slightly in local currencies. North American sales were affected by the weak performance in the automotive paints segment and the continued relocation of the United States textile industry to the Asian region and to Central and South America. In the **Eastern Hemisphere**, sales were strong in the Asian markets, in both Swiss francs and in local currencies, except in Japan, which posted a moderate decline in local currency.

Operating income	2000	1999
Absolute in CHF	321	231
As a percentage of sales (EBIT margin)	12.3%	9.7%
EBITDA		
Absolute in CHF	452	356
EBITDA margin	17.2%	14.9%

Operating income and EBITDA were 39 percent and 27 percent higher, respectively, compared to the prior year. This increase reflects the positive impact of volume growth coupled with increased capacity utilization and ongoing process improvements. These positive effects have more than offset selling price declines. The full benefits of the Colors reorganization and process improvement initiatives became visible in lower production and selling, general and administrative expenses as a percentage of sales and consequently, led to higher EBIT and EBITDA margins.

Asset management	2000	1999
Net current operating assets:		
Absolute in CHF	1 056	1 092
As a percentage of sales	40%	46%
Net assets (Invested capital) in CHF	2 463	2 537
Velocity	1.04	0.95

The successful implementation of the division's demand activated manufacturing and distribution system, which began in 1999, resulted in a significant reduction in inventory levels. This demand activated manufacturing and distribution system, while improving inventory management, has also supported the division's ongoing initiative on improving customer service levels. In absolute and intensity terms, accounts receivable and inventories decreased in 2000 from 1999 levels.

Velocity improved to 1.04 from 0.95 in 1999. This improvement resulted from the increase in sales and the decline in average net assets resulting from the lower capital expenditures and reductions in net operating assets as compared to the prior year.

Consumer Care division results

Effective January 1, 2000, the division implemented a new structure with three business units, Home and Personal Care, Paper Chemicals and Textile Chemicals. Similar industry-focused organizational structures have produced positive results in terms of market and customer focus, profitability and efficient cost structures within the Company's Additives and Colors divisions. The sales and industry discussions below are presented on the basis of this new structure.

Sales increased to CHF 1 542 million in 2000 or by 10 percent in Swiss francs and by 4 percent in local currencies. Sales growth compared to 1999 resulted from the following factors:

Sales development	2000 compared to 1999
Volume/product mix	7%
Price	(3)%
Currency	6%
Total in Swiss francs	10%

The Consumer Care division's strong sales growth was achieved by increased volume and changes in product mix, which more than compensated for selling price declines. The favorable currency exchange rates further benefited sales growth in Swiss franc terms.

Sales growth in Paper Chemicals increased strongly in both Swiss francs and in local currencies, reflecting the continued positive impacts of the firm paper markets. This was particularly evident in the paper whitener and paper finishing businesses. Textile Chemicals sales also posted an increase in both Swiss francs and in local currencies, benefiting from innovative products for the fabric finishing market. The Home and Personal Care business faced difficult market conditions for most of the year, due to the effects of intense price competition among key detergent manufacturers, and pricing pressures from new producers in Asia in the antimicrobials business. Towards the end of 2000 there was, however, an upturn in sales in the detergent market. In addition, sales of recently introduced new products in the Personal Care market, such as hair-dyeing products, grew during 2000.

Geographically, in **Europe** sales increased in both Swiss francs and in local currencies. Performance among individual countries, however, was mixed. In the **Western Hemisphere**, sales increased significantly in South and Central America in both Swiss francs and in local currencies. In North America, sales increased significantly in Swiss francs but were flat in local currencies. In the **Eastern Hemisphere**, strong sales performances were posted in most major Asian markets, in both Swiss francs and in local currencies, except in Japan, which posted a decline.

Operating income	2000	1999
Absolute in CHF	184	146
As a percentage of sales (EBIT margin)	11.9%	10.4%
EBITDA		
Absolute in CHF	239	203
EBITDA margin	15.5%	14.4%

Despite the challenging sales conditions in general, and in the Home and Personal Care markets in particular, the division increased operating income and EBITDA by 26 percent and 18 percent, respectively, compared to the prior year. Foreign exchange currency trends had a positive impact on division results as proportionately more costs than sales were incurred in Europe. As a result, sales increased more in Swiss francs terms than costs, which remained level. In addition, the improvement was driven by efficient raw material purchasing which supported an improvement in gross margin. The positive effects of these two factors more than compensated for increased expenditures in research and development and investments in new businesses.

Asset management	2000	1999
Net current operating assets:		
Absolute in CHF	454	430
As a percentage of sales	29%	31%
Net assets (Invested capital) in CHF	962	896
Velocity	1.64	1.56

In 2000, the division increased its investment, in absolute terms, in both inventories and accounts receivable. In intensity terms, accounts receivable improved significantly, while inventories remained stable.

Velocity improved to 1.64 from 1.56 in 1999, as the increase in net sales outweighed the overall increase in average net assets.

Effective treasury management

The international financial markets in 2000 continued to be volatile. The major trends in the markets which were the focus of the Company's treasury management included the strengthening of the U.S. dollar against the Swiss franc, the weakening of the Euro against the Swiss franc and other European currencies, the volatility in the Japanese yen, and the movements in interest rates.

In the first half of 2000, the Swiss franc strengthened against most of the major currencies, with the exception of the U.S. dollar and Japanese yen. In the second half of 2000, the Swiss franc continued to strengthen against these major currencies, however, the U.S. dollar and the Japanese yen continued to strengthen, with a weakening occurring in December 2000. During 2000, the U.S. dollar fluctuated against the Swiss franc from a high of approximately CHF 1.82 to a low of approximately CHF 1.56. At the end of the year 2000, the Swiss franc was at a level of CHF 1.67 against the U.S. dollar versus CHF 1.58 at the end of 1999.

As a consequence of the continued economic expansion in the United States and Europe, global interest rates continued to rise over 1999 levels. In particular, a significant increase was seen in short-term Swiss franc borrowing rates. Through the effective anticipation of market conditions and the use of financial instruments available in the financial markets, the Company was able to further reduce the average cost of its total borrowings in 2000 to 5.2 percent,

which is below 1999 levels. The Company's net interest costs decreased by CHF 56 million to CHF 209 million in 2000 compared to CHF 265 million in 1999. This decrease resulted from a combination of effective treasury management and the use of proceeds received from the divestment of the Performance Polymers business on May 31, 2000, to further reduce net debt levels during the second half of 2000.

The Company, in accordance with its stated risk management policy, continued to monitor its currency exposures and, where appropriate, has entered into transactions to minimize its overall exposures to volatility in the currency markets. The Company selectively executed foreign currency transactions to protect the cash flows of its operating companies against unfavorable foreign currency movements. In 2000, other financial income (expense), which includes foreign currency exchange gains and losses and net hedging expenses, increased by CHF 9 million, to a net expense of CHF 14 million in 2000 as compared to a net expense of CHF 5 million in 1999. Through the use of effective treasury management, the Company was able to maintain net other financial income (expense) at a relatively stable level as compared to 1999, despite the volatility in the financial markets during 2000. In addition, the Company continued to realize benefits from the introduction of the Euro in Europe, which has enabled the Company to further improve cash management, reduce costs and simplify risk management by reducing the number of currencies requiring attention.

The Company has continued its debt repayment program, which commenced in 1999, utilizing its free cash flow to substantially reduce its short-term debt. Cash flow utilized for this purpose amounted to CHF 844 million in 2000 and CHF 915 million in 1999. When economically feasible, the Company has also selectively retired portions of its long-term debt. Free cash flow utilized for this purpose amounted to CHF 499 million in 2000 versus CHF 49 million in 1999. The Company's remaining cash reserves will be utilized in future periods to further maintain short-term debt at stable levels and for the repayment of long-term debt when it is economically advantageous to the Company.

The Company has completed its preparation for the implementation of the new U.S. GAAP standard on the accounting for derivative instruments and hedging activities (SFAS No. 133) and has adopted this new standard effective January 1, 2001. The Company estimates that the impact from the adoption of this accounting standard will not have a material effect on the Company's 2001 results of operations and financial position. For further discussion, see "Supplemental Information – New accounting standards" of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Effective tax rate

The Company reported an effective tax rate of 35 percent in 2000 versus 33 percent in 1999. In 2000, the effective tax rate was impacted by several non-recurring events. The tax rate was positively impacted by the realization of tax loss carryforwards for which the Company had previously recorded a valuation allowance, as at the time of their origination, realization was uncertain. Offsetting this positive effect on the effective tax rate were three events that generated additional income tax expense in 2000. First, statutory tax rates were further reduced in Germany from 50 percent to 38 percent. This tax rate reduction required the Company to re-value its net deferred tax asset

of its German subsidiaries. This revaluation reduced the net deferred tax asset, resulting in additional tax expense in 2000. Second, additional tax expense was recorded for financial reporting purposes from certain taxable income in one of the Company's subsidiaries that was not recognized for financial reporting purposes. Third, the Company experienced a change in the profitability mix of its subsidiaries to countries with higher fiscal tax rates. Excluding the impact of the non-recurring events discussed above, for comparability with the 1999 effective tax rate, the effective tax rate in 2000 would have been 34 percent.

Net income and earnings per share

Net income	2000	1999
After restructuring and special charges		
Net income	452	325
Income from continuing operations	418	238
Discontinued operations ⁽¹⁾	34	87
Before restructuring and special charges		
Net income	454	325
Income from continuing operations	420	238
Discontinued operations ⁽¹⁾	34	87

⁽¹⁾ In 2000, discontinued operations reported is the gain on sale of discontinued operations, net of tax. In 1999, discontinued operations reported is the income from operations of discontinued operations, net of tax.

Improving operational business performance, favorable currency conditions and effective treasury management, which reduced overall financing costs, led to an increase in net income.

Earnings per share, basic and diluted	2000	1999
After restructuring and special charges		
Continuing operations	6.31	3.58
Discontinued operations	0.50	1.31
Net income	6.81	4.89
Before restructuring and special charges		
Continuing operations	6.34	3.58
Discontinued operations	0.50	1.31
Net income	6.84	4.89

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

Economic profit increases

Economic profit is dependent upon continued asset control coupled with growth in EBIT. In 2000, as a result of improved asset management and strong operational performance, economic profit (loss) increased by CHF 183 million to show an economic profit of CHF 32 million compared to an economic (loss) of CHF (151) million in 1999.

Consolidated balance sheets

Focused portfolio and asset management continues to reduce investment in assets and net debt

Select balance sheet data as of December 31,

	2000	1999
Cash and cash equivalents and short-term investments	1 247	471
Total Assets	12 105	12 407
Total Shareholders' equity	3 754	3 638

The combination of the effects from the Company's net business portfolio changes and the continued emphasis on the management of operational assets led to a further reduction in total assets of CHF 302 million in 2000 compared to 1999. Total assets excluding cash and cash equivalents and short-term investments reduced by CHF 1 078 million. This reduction was due, principally, to the divestments of the Performance Polymers business and the majority of the Company's equity stake in Hexcel. In addition, continued tight asset management in the areas of inventories and accounts receivable and the continued emphasis on cost effective capital expenditures focused on efficiency and safety improvement related items also contributed to this reduction in total assets. The Company continued its practice of maintaining total investments in property, plant and equipment at less than the annual depreciation cost.

The change in year-end exchange rates, between December 31, 2000 and 1999, used for translating the balance sheet into Swiss francs, did not have a significant effect. While the U.S. dollar appreciated against the Swiss franc, the British pound and the Euro depreciated against the Swiss franc resulting in a netting effect for most balance sheet items.

Net debt has reduced significantly in 2000. The table below shows the movement in net debt from December 31, 1999 to December 31, 2000.

Net debt roll from 1999 to 2000	Total debt	Cash & cash equivalents	Short term investments	Total Net Debt
December 31, 1999	5 439	413	58	4 968
Cash flows increase (decrease), net	(1 339)	794	10	(2 143)
Currency effects and other	130	(28)	0	158
December 31, 2000	4 230	1 179	68	2 983

The portfolio changes and the continued generation of cash flows from operations in excess of one billion Swiss francs allowed the Company to reduce net debt levels in Swiss franc terms by CHF 1 985 million in 2000 compared to a reduction of CHF 332 million in 1999. Net debt amounted to CHF 2 983 million in 2000 compared CHF 4 968 million in 1999.

Short-term debt was reduced from CHF 1 174 million in 1999 to CHF 371 million in 2000. Long-term debt was reduced from CHF 4 265 million in 1999 to CHF 3 859 million in 2000. This significant reduction in total debt was achieved through the Company's continued debt repayment program, which began in 1999. When economically feasible, the Company selectively retired portions of its long-term debt. The Company's remaining cash reserves will be utilized in future periods to further maintain short-term debt at stable levels and for the repayment of long-term debt when it is economically advantageous to the Company.

Velocity improves slightly as a result of sales growth and reductions in invested capital

December 31,	2000	1999
Invested capital (Net assets), end of year	9 804	9 825
Velocity	0.80	0.75
Velocity, excluding goodwill	1.03	0.97

Velocity is a measurement designed to measure the effectiveness of the Company's asset utilization. Velocity improved to 0.80 from 0.75 in 1999. Excluding goodwill from invested capital, velocity improved to 1.03 from 0.97 in 1999.

Liquidity and capital resources

Liquidity – Free cash flow exceeds two billion Swiss francs

Cash flows from operating activities	2000	1999
Net cash from continuing operations, before restructuring payments	1 065	1 054
Cash used for restructuring payments	(35)	(148)
Net cash provided by discontinued operations	1	174
Net cash provided by operating activities	1 031	1 080

The Company's ongoing improvements in income from continuing operations and effective asset management generated operating cash flows from continuing operations of CHF 1 065 million in 2000 compared to CHF 1 054 million in 1999, before restructuring payments. In 2000 and in 1999, the Company's operating cash flows benefited from good operational performance and efficient management of net operating assets. Successful inventory and accounts receivable management programs resulted in slightly reduced funding requirements, despite increased sales volume in 2000. The major benefits from reducing net operating assets were realized in 1999. During 1999, programs which commenced in 1998 resulted in significantly lower funding requirements for operating assets.

Cash flows from investing activities	2000	1999
Capital expenditures	(249)	(267)
Sale (acquisition) of businesses, net of cash	1 566	70
Proceeds from sale of assets and changes in loans and other long-term assets	(42)	102
Cash flows used in investing activities, discontinued operations	(4)	(36)
Net cash provided by (used in) investing activities	1 271	(131)

The net business portfolio changes contributed significantly to cash flows provided by investing activities in 2000. The net proceeds received during 2000 from acquisition and divestment activities were CHF 1 566 million. Included in this amount were the net proceeds from the sale of the Performance Polymers business and the net proceeds from the sale of the majority of the Company's interest in its equity affiliate, Hexcel. These net proceeds from divestment activities were offset by several strategic acquisitions of businesses and technology, including the Additives division's purchase of Prochimica s.r.l., its key photoinitiators supplier, at a cost of CHF 85 million and the purchase of certain paper chemical product lines and technologies from Cytec Industries for CHF 40 million.

The cash proceeds recorded in 2000 were net of the associated transaction costs, taxes and separation costs that have been paid-out to third parties, through December 31, 2000, in connection with the divestment and acquisition activities. The most significant costs incurred related to the divestment of the Performance Polymers business. The majority of these cash payments, primarily related to transaction taxes and separation costs, will be paid during 2001. Management currently estimates that the cash outflows in 2001 for these purposes will total approximately CHF 270 million.

The Company continued its program of strict asset management with capital expenditures during 2000 and 1999 remaining below the annual depreciation charge. The capital expenditure programs have been focused on efficiency and safety improvement related items. The Company's major investments have been concentrated in the Colors division and the Water Treatments business unit in the United States. In the Colors division's Inks, Paints and Plastics business unit, these investments were primarily for the quinacridone project. In the Water Treatments business unit, these investments were for increasing the production for Cationic Monomers. These investments are designed to create more cost-effective production processes and increase capacity.

The 1999 investment activities focused on the sale of non-strategic assets and investments, the most significant being the sale of the equity investment in Cerdec AG for CHF 70 million.

Cash flows from financing activities	2000	1999
Increase (decrease) in short-term and long-term debt, net	(1 339)	(634)
Dividends paid	(133)	(133)
Treasury stock transactions and other	(36)	2
Cash flows (used in) provided by financing activities	(1 508)	(765)

Free cash flow amounted to CHF 2 169 million in 2000 compared to CHF 816 million in 1999. This increase is primarily a result of the net cash received from business portfolio changes, the continued strong operational cash flow and the positive effects being realized from the completion of the prior years restructuring programs. Free cash flow was used, where it was economically advantageous to the Company, for debt repayment as well as for small strategic acquisitions. Excluding the effects of acquisitions and divestments, free cash flow would have been CHF 603 million in 2000 compared to CHF 746 million in 1999.

Capital resources

The Company's policy is to maintain a high degree of flexibility in its funding process by using a broad variety of financial instruments and currencies depending on market conditions. 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 exposures. In accordance with the Company's written hedging policy, the Company primarily utilizes foreign exchange currency forwards, swaps and options contracts. The Company's risk management policies do not permit the utilization of financial instruments for trading purposes. For further information, see "Supplemental information – Market risk due to fluctuating foreign currency exchange rates and interests rates" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

In recent years, the Company's sources of liquidity have primarily been provided by operations and funds from capital markets. The management of the Company is of the opinion that the funding available to it from these sources will be sufficient to satisfy its working capital and debt service requirements for the foreseeable future. The Company's capital requirements are primarily dependent on management's business plans regarding the levels and timing of capital expenditures and investments. Subject to developments affecting the Company which cannot be predicted or controlled, management currently intends to maintain the Company's capital expenditure levels generally in the range of the past three years. The Company is not currently subject to any commitment for capital expenditures which individually is material to the Company.

For further information on capital resources available to the Company, see Notes 11 and 12 to the Consolidated Financial Statements and the "Supplemental information – Capital Resources" section of this Management's Discussion and Analysis of Results of Operations and Financial Condition.

Outlook for 2001 and beyond

The Company sees further sales and profit growth in 2001. Sales growth should clearly be above the average market growth in the Company's industries. Market growth is expected to be around 2 percent, reflecting the softer macro-economic environment. EBITDA should grow both in absolute terms and as a percentage of sales. Also, due to the Company's strengthened financial situation an over-proportional increase in net income and EPS is expected.

These forecasts are based on a moderately softer macro-economic environment coupled with a modest appreciation of the Swiss franc vis-à-vis the Euro and the U.S. dollar. They are also based on the successful implementation of the Company's key initiatives that are aimed at fostering profitable growth, innovation, management development and cash flow generation.

Discontinued operations – Performance Polymers business sold

Divestment underscores specialty chemical focus

On December 14, 1999, the Company signed an agreement under which Morgan Grenfell Private Equity ("MGPE"), the private equity arm of Deutsche Bank AG, agreed to purchase the Performance Polymers business. The agreement was amended on May 20, 2000, and the transaction was completed on May 31, 2000. The total gross proceeds from the sale of the Performance Polymers business to MGPE and Asian joint venture partners were CHF 1.6 billion, which includes net debt assumed of approximately CHF 160 million. The assumed net debt consists of approximately CHF 71 million of third party debt and approximately CHF 121 million of debt to Ciba Specialty Chemicals, offset by approximately CHF 32 million of cash.

In connection with the sale of the Performance Polymers business to MGPE, the Company has agreed to provide certain infrastructure related services, such as utility services and railroad access, to the Performance Polymers business at shared production facilities.

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

This divestiture underscores the Company's strategy of focusing its portfolio on specialty chemicals rather than specialty materials. The Performance Polymers business that was sold is substantially all of the previously reported Performance Polymers division.

The Performance Polymers business is 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. The Performance Polymers business achieved sales of CHF 774 million for the five-month period ended May 31, 2000 and CHF 1 729 million for the year ended December 31, 1999. The Company recorded, in the Consolidated Statement of Income, a gain on sale of discontinued operations, net of tax of CHF 34 million in 2000. For the year ended December 31, 1999, income from discontinued operations, net of tax amounted to CHF 87 million. The 2000 gain on sale of discontinued operations, net of tax, of CHF 34 million, consists of the Performance Polymers business operating results through May 31, 2000 of CHF 37 million offset by the loss from the sale of the net assets of the business of CHF (3) million, which includes the expenses for transaction taxes and the costs of selling the business. Refer to Note 3 to the Consolidated Financial Statements for further information.

Supplemental Information

Inflation

The movements in the annual rates of inflation in Switzerland and the other major markets in which the Company operates have not been significant in the last two fiscal years.

Capital resources – additional information

The Company maintains multicurrency loan facilities, commercial paper programs and bank overdraft and credit line facilities to finance its working capital requirements. At December 31, 2000 and 1999, a total of CHF 371 million and CHF 1 174 million, respectively, was outstanding under all of the Company's short-term debt facilities.

The Company's most significant multicurrency revolving loan agreement provides for borrowings in multiple currencies up to CHF 400 million (1999: CHF 600 million) at an interest rate of LIBOR plus 21.5 basis points. This facility expires on July 11, 2002, and as of December 31, 2000 there were no borrowings outstanding (1999: CHF 474 million was outstanding). The Company's other multicurrency facility, which provided for borrowings of CHF 300 million at LIBOR plus 20 basis points, expired on June 30, 2000 and was not renewed by the Company. There were no borrowings outstanding on this facility in either 2000 or in 1999.

The Company's USD 1.0 billion commercial paper program had unused borrowings of approximately USD 999 million at December 31, 2000 (1999: USD 972 million).

As of December 31, 2000, the Company had available unused credit lines under its other bank overdraft and credit facilities of a total of approximately CHF 1 229 million (1999: CHF 1 388 million).

The Company's long-term debt consists primarily of Euro Medium-Term Notes, convertible bonds, and straight bonds. At December 31, 2000 and 1999, a total of CHF 3 859 million and CHF 4 265 million, respectively, was outstanding under all of the Company's long-term debt facilities.

In 1997, the Company entered into a USD 2.0 billion (CHF 3.3 billion) 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. As of December 31, 2000 and 1999, the Company had available under this program approximately CHF 2 305 million (USD 1 380 million) and CHF 1 687 million (USD 1 067 million), respectively.

The Company's USD 687 million (CHF 1 107 million) unsecured, unsubordinated convertible bonds due 2003 with a fixed interest rate of 1.25 percent 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.

In addition, at December 31, 2000 and 1999, the Company had outstanding CHF 1 300 million 3.25 percent straight bonds, of which CHF 1 000 million is due in 2008 and CHF 300 million is due in 2009.

Environmental matters

Operating in the chemical industry, the Company 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, the Company uses advanced waste treatment and disposal facilities 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 substantially complies with all such laws.

Prior to the Company's spin-off from Novartis AG (Novartis), a Company-wide environmental audit was performed. Based on the results of the audit, management was of the opinion that CHF 738 million in reserves recorded at that time were sufficient to meet all then known and anticipated environmental claims and liabilities relating to the Company's past operations. These provisions were adjusted as further information developed or circumstances changed and amounted to CHF 798 million at December 31, 2000 (CHF 789 million at December 31, 1999). The main difference between 2000 and 1999 relates to changing foreign currency exchange rates, usage of the provisions, increases for new environmental claims, as discussed below, and by reductions in the provisions as a result of favorable settlement of previous environmental claims and updates to the estimated costs to complete outstanding claims and issues. The Company's environmental protection and improvement cash expenditures were approximately CHF 61 million in 2000 (CHF 61 million in 1999), including investments in construction, operations and development.

In the agreement on the Company's spin-off from Novartis, Novartis agreed to reimburse the Company 50 percent of United States environmental liabilities arising from past operations of the Company in excess of the agreed reserves. Outside the United States, environmental liabilities are allocated between Novartis and the Company based on ownership of the site or, if environmental liabilities do not relate to production sites or these are not owned by either entity, according to the polluter pays principle. If causation between the parties cannot be determined, costs are shared equally. The agreement with Novartis is not subject to any time or amount limits but could terminate for certain liabilities in the United States (i) upon a sale of substantially all of the Company's assets, (ii) upon a change in control of the Company, or (iii) for individual facilities, upon the sale of the facility (unless the Company retains responsibility for any clean-up at such site).

In 1998, certain litigation matters related to sites located in the United States were settled with the insurance companies. The Company received the cash of approximately CHF 43 million, net of related legal costs incurred, in 1999. The Company has not reflected any potential insurance recoveries that may be available in the future.

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 reserves for all known environmental liabilities for remediation costs when a clean-up program becomes probable and costs can be reasonably estimated.

Clean-up of the most significant sites has been or is nearly completed, except for two major sites where remediation measures are still in discussion.

At its Toms River, New Jersey remediation site the Company agreed with the United States Environmental Protection Agency in September 2000 on a Remedial Action Plan which now enters into its technical design and implementation phase. It is expected to involve significant expenses over a period of several years.

The contamination of the groundwater on the Toms River site has triggered, since May 2000, several actions against the Company in the New Jersey Chancery Court seeking medical monitoring as well as payment of damages for alleged injuries by a number of individuals who reside or resided in the vicinity of the Company's Toms River site during the years from 1952 to 1980 and were allegedly exposed to contaminated drinking water. These cases are in a very early stage, and the Company intends to defend itself vigorously. A third group of individuals defending the interests of a number of children who died or suffer from brain cancer allege that the groundwater contamination of the Toms River site may be the cause to these illnesses. This group of individuals entered into a standstill agreement with the Company regarding the statute of limitations.

In addition, as a result of past operations of the former Ciba-Geigy, the Company is involved in the planning of a remediation of the waste disposal site in Bonfol, Switzerland, which was closed in 1976. The responsibility for the clean-up lies with several chemical enterprises including, among others, the Company, Clariant Ltd., Novartis and Roche Holding Ltd. The responsible companies closely cooperate with the competent authorities to define the necessary measures in view of a final remediation of the site. The Company cannot predict with certainty the total cost of such remediation, or the precise amount of time necessary to accomplish the remediation. It is currently estimated, however, that the remediation effort could require nine to fifteen years to complete.

The contractual terms of the sale of the Performance Polymers business stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Performance Polymers business prior to the closing date, whereby damages for remediation in connection with sites outside the United States shall cover only 80 percent of the respective costs. The responsibility with respect to any non-United States site covers environmental liabilities incurred within fifteen years and is limited to CHF 75 million. With respect to any such environmental liabilities in the United States the Company's obligation to indemnify is unlimited in time or amount. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Performance Polymers business.

In management's opinion, the environmental reserves accrued are sufficient to meet all currently known and estimable environmental claims and contingencies. 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.

Euro conversion

On January 1, 1999, eleven (2001: twelve) 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, cashless 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 (i) the technical challenges of adapting information systems to accommodate Euro transactions, (ii) the competitive impact of cross-border price transparency, (iii) the impact on currency exchange rate risks, (iv) the impact on existing contracts and (v) tax, legal and accounting implications. Based on the Company's progress to date, management is of the opinion that 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 issue

The Company, since the date of the Spin-off, had been addressing the Year 2000 issue. This effort was conducted in combination with the Company's 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 the Year 2000 issue. The Company's revenue patterns were not 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, of which CHF 10 million was incurred in 1999 and CHF 13 million was incurred in prior years. The Company does not expect any significant issues for business, processes or operations in the future as a consequence of the Year 2000 issue.

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 1996 opening tax balance sheet of the Grenzach company as a result of the spin-off from Novartis. The German tax authorities have made a substantial tax adjustment. Based on its interpretation of the Master Spin-off Agreement with Novartis and Swiss commercial law, the Company's management is of the opinion that the total liability owed is the responsibility of Novartis and that the ultimate outcome of this matter will not have a material adverse effect on the financial position or the results of operations of the Company.

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

As a result of its global operating and financial activities, the Company 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's written policy with respect to the use of risk management tools has not changed since 1997.

The Company collects global expected cash flows information on a monthly basis and, based on these cash flows, prepares a consolidated exposure forecast by currency and determines to what extent these consolidated currency exposures will be hedged. Foreign currency forwards and swaps as well as 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 underlying transactions 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 2000, 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 exposures have 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, 2000, a 10 percent appreciation in foreign currency exchange rates against the Swiss franc, with all other variables held constant, would have resulted in a decrease in the fair value of the Company's financial instruments of CHF 123 million. Conversely, a 10 percent depreciation in these currencies would have resulted in an increase in the fair value of the Company's financial instruments of CHF 124 million as of December 31, 2000. More than 80 percent of the changes in fair values refer to foreign currency forwards and 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 or decrease 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 forwards and swaps is calculated by separating the two components and applying the forward rate and the balance sheet rate as well as a discount factor. The 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 foreign currencies and 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 nominal 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, 2000, a hypothetical one percentage point increase in interest rates for a one-year period would have reduced net income by CHF 42 million. 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 a floating rate agreement.

New accounting standards

Effective January 1, 2001, the Company adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Activities, an amendment to FASB Statement No. 133" which replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. These statements expand the previous accounting definition of derivatives to include embedded derivatives and many commodity contracts. Under the statement, all derivatives, such as interest rate swap contracts and foreign exchange contracts, 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. The Company estimates that the impact of the adoption will not have a material effect on the Company's 2001 results of operations and financial position.

Forward-Looking Statements

Forward-looking statements and information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are qualified in their entirety as there are certain important factors that could cause results to differ materially from those anticipated. Such statements reflect the current views of the Company with respect to market conditions and future events and are subject to certain risks, uncertainties and assumptions. 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, introduction of competing products by other companies, lack of acceptance of new products and services by the Company's targeted customers, changes in the Company's business strategy, the Company's ability to continue to receive adequate raw materials from its suppliers on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs, and changes in the political and regulatory framework in which the Company operates or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis and various other factors. Furthermore, the Company does not assume any obligation to update these forward-looking statements.

Consolidated Statements of Income

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

Year ended December 31,	Notes	2000	1999
Net sales		7 902	7 244
Cost of goods sold		5 333	4 956
Gross profit		2 569	2 288
Selling, general and administrative		1 425	1 341
Research and development		293	256
Amortization of goodwill		86	74
Income from earnings of equity affiliates	8	(113)	(15)
Restructuring and special charges	10	2	0
Operating income		876	632
Interest expense		(265)	(295)
Interest income		56	30
Other financial expense, net		(14)	(5)
Minority interest		(7)	(7)
Income from continuing operations before income taxes		646	355
Provision for income taxes	13	228	117
Income from continuing operations		418	238
Income from discontinued operations, net of tax	3	0	87
Gain on sale of discontinued operations, net of tax	3	34	0
Net income		452	325
Per share data	18		
Basic earnings per share			
Continuing operations		6.31	3.58
Discontinued operations		0.50	1.31
Net income		6.81	4.89
Diluted earnings per share			
Continuing operations		6.31	3.58
Discontinued operations		0.50	1.31
Net income		6.81	4.89
Weighted average shares outstanding			
Basic		66 311 879	66 454 357
Diluted		66 311 879	66 462 898

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

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

December 31,	Notes	2000	1999
Assets			
Current assets			
Cash and cash equivalents		1 179	413
Short-term investments		68	58
Accounts receivable, net	4	1 188	1 241
Inventories	5	1 695	1 660
Prepaid and other current assets		667	574
Net current assets of discontinued operations	3	0	326
Total current assets		4 797	4 272
Property, plant and equipment, net	6	3 787	3 914
Goodwill and other intangible assets, net	7	2 240	2 292
Financial investments	8	344	553
Other assets		937	788
Net long-term assets of discontinued operations	3	0	588
Total assets		12 105	12 407
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable		568	561
Short-term debt	11	371	1 174
Income taxes payable		32	55
Accruals and other current liabilities	9	1 431	821
Total current liabilities		2 402	2 611
Long-term debt	12	3 859	4 265
Deferred income taxes	13	317	321
Other liabilities	14	1 723	1 514
Minority interest		50	58
Total liabilities		8 351	8 769
Shareholders' equity			
Common stock ⁽¹⁾	15	721	721
Additional paid-in capital		3 955	3 941
Retained earnings		(324)	(642)
Accumulated other comprehensive income		(116)	60
Treasury stock, at cost ⁽²⁾		(482)	(442)
Total shareholders' equity		3 754	3 638
Total liabilities and shareholders' equity		12 105	12 407

⁽¹⁾ Par value CHF 10 per share – 82 130 117 shares authorized and 72 130 117 shares issued in 2000 and 1999.

⁽²⁾ In 2000: 6 061 434 treasury shares; in 1999: 5 675 119 treasury shares.

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,	2000	1999
Cash flows from operating activities		
Net income	452	325
Deduct net income from discontinued operations, net of tax	34	87
Income from continuing operations	418	238
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	470	454
Deferred income taxes	179	35
Unremitted earnings of equity affiliates	(88)	4
Restructuring and special charges	2	0
Restructuring payments	(35)	(148)
Gain on sale/disposal of assets, net	(15)	(22)
Minority interest and other non-cash items, net	38	(75)
Changes in operating assets and liabilities:		
Short-term investments	(10)	(4)
Accounts receivable, net	37	(1)
Inventories	(45)	149
Accounts payable	(8)	45
Other operating assets and liabilities	87	231
Net cash provided by continuing operations	1 030	906
Net cash provided by discontinued operations	1	174
Net cash provided by operating activities	1 031	1 080
Cash flows from investing activities		
Capital expenditures	(249)	(267)
Proceeds from sale of assets	39	35
Sale (acquisition) of businesses, net of cash	1 566	70
Loans and other long-term assets	(81)	67
Discontinued operations	(4)	(36)
Net cash provided by (used in) investing activities	1 271	(131)
Cash flows from financing activities		
Decrease in short-term debt, net	(844)	(915)
Proceeds from long-term debt	4	330
Repayments of long-term debt	(499)	(49)
Dividends paid	(133)	(133)
Treasury stock transactions	(40)	0
Other	4	2
Net cash used in financing activities	(1 508)	(765)
Effect of exchange rate changes on cash and cash equivalents	(28)	23
Net increase in cash and cash equivalents	766	207
Cash and cash equivalents, beginning of year	413	206
Cash and cash equivalents, end of year	1 179	413
Supplemental cash flow information		
Cash paid for interest	(260)	(328)
Cash paid for income taxes	(72)	(95)

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, 1998		721	3 930	(835)	(122)	(164)	(278)	3 252
Net income				325				325
Currency translation adjustments					180			180
Unrealized gain on available-for-sale securities, net of tax					1			1
Comprehensive income				325	181			506
Cash dividends declared and paid ⁽¹⁾				(133)				(133)
Treasury stock transactions	15					118	(118)	0
Other			11	1	1			13
Balance at December 31, 1999		721	3 941	(642)	60	(46)	(396)	3 638
Net income				452				452
Currency translation adjustments					(177)			(177)
Unrealized gain on available-for-sale securities, net of tax					0			0
Realization of previously unrealized loss on available-for-sale securities, net of tax					1			1
Comprehensive income				452	(176)			276
Cash dividends declared and paid ⁽¹⁾				(133)				(133)
Treasury stock transactions	15					(26)	(14)	(40)
Other			14	(1)	0			13
Balance at December 31, 2000		721	3 955	(324)	(116)	(72)	(410)	3 754

⁽¹⁾ Cash dividends declared and paid were CHF 2.00 per share in 2000 and 1999.

See Notes to Consolidated Financial Statements

Business Segment Data

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

	2000	1999
Net sales		
Additives	3 740	3 443
<i>Additives excluding Water Treatments</i>	2 644	2 426
<i>Water Treatments</i>	1 096	1 017
Colors	2 620	2 396
Consumer Care	1 542	1 405
Total net sales	7 902	7 244
Operating income		
Additives	561	461
<i>Additives excluding Water Treatments</i>	483	411
<i>Water Treatments</i>	78	50
Colors	321	231
Consumer Care	184	146
Corporate and other expenses	(188)	(206)
Restructuring and special charges	(2)	0
Total operating income	876	632
EBITDA		
Additives	763	647
<i>Additives excluding Water Treatments</i>	627	533
<i>Water Treatments</i>	136	114
Colors	452	356
Consumer Care	239	203
Corporate	(106)	(120)
Total EBITDA, before restructuring and special charges	1 348	1 086
EBITDA margin		
Additives	20.4%	18.8%
<i>Additives excluding Water Treatments</i>	23.7%	22.0%
<i>Water Treatments</i>	12.4%	11.2%
Colors	17.2%	14.9%
Consumer Care	15.5%	14.4%
Corporate	–	–
Total EBITDA margin, before restructuring and special charges	17.1%	15.0%
Economic profit		
Additives	236	162
<i>Additives excluding Water Treatments</i>	239	188
<i>Water Treatments</i>	(3)	(26)
Colors	67	(2)
Consumer Care	72	46
Corporate	(343)	(357)
Total economic profit (loss)	32	(151)
Depreciation and amortization		
Additives	202	186
<i>Additives excluding Water Treatments</i>	144	122
<i>Water Treatments</i>	58	64
Colors	131	125
Consumer Care	55	57
Non-divisional depreciation and amortization	82	86
Total depreciation and amortization	470	454

	2000	1999
Research and development expenditures		
Additives	159	135
<i>Additives excluding Water Treatments</i>	138	116
<i>Water Treatments</i>	21	19
Colors	80	79
Consumer Care	54	42
Total research and development expenditures	293	256
Capital expenditures		
Additives	127	148
<i>Additives excluding Water Treatments</i>	87	66
<i>Water Treatments</i>	40	82
Colors	70	79
Consumer Care	48	34
Non-divisional capital expenditures	4	6
Total capital expenditures	249	267
Net assets		
Net operating assets:		
Additives	2 806	2 678
<i>Additives excluding Water Treatments</i>	1 936	1 790
<i>Water Treatments</i>	870	888
Colors	2 463	2 537
Consumer Care	962	896
Shared net assets not allocated to divisions ⁽¹⁾	1 780	2 691
Non-operating net assets	1 793	1 023
Total net assets	9 804	9 825
Total assets		
Operating assets:		
Additives	3 383	3 235
<i>Additives excluding Water Treatments</i>	2 320	2 174
<i>Water Treatments</i>	1 063	1 061
Colors	2 826	2 865
Consumer Care	1 156	1 066
Shared assets not allocated to divisions ⁽¹⁾	2 535	2 952
Non-operating assets	2 205	1 375
Net assets of discontinued operations	0	914
Total assets	12 105	12 407

⁽¹⁾ Shared net assets and assets not allocated to divisions include the goodwill recognized in connection with the Allied Colloids acquisition.

See Glossary of Financial Terms for definitions of net assets, EBITDA and EBITDA margin and economic profit.

See Notes to Consolidated Financial Statements

The segment data includes certain non-U.S. GAAP financial indicators which form part of the Company's value based management reporting system and that are used by management for purposes of analyzing the results of operations and financial condition of the Company and its reportable segments. These financial indicators are derived from U.S. GAAP financial items. Such indicators include EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and economic profit.

Management believes these financial indicators to be an important measure of comparative operating performance for the businesses of the Company and, in the case of EBITDA, when used in comparison to debt levels or the coverage of interest expense, as a measure of financial stability. However, these supplementary financial indicators should be considered in addition to, not as a substitute for, operating income, net income, cash flow and other measures of financial performance and liquidity reported in accordance with U.S. GAAP.

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 to the 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 price.

Beginning in 2000, compensation expense relating to the interest portion of pension costs for unfunded pension plans has been allocated to the divisions. Previously, this amount was recorded as a corporate expense. In addition, in 2000 accruals and other current liabilities attributable to the divisions have been allocated to the division and are included as a component of net operating assets. Previously, they were recorded as non-operating net assets. While these reclassifications have no impact on net income or net assets of the Company, divisional EBIT, EBITDA and economic profit have been adjusted accordingly. Amounts reported for the previous periods have been reclassified to conform to the 2000 presentation.

As of December 31, 2000, the Company had three reportable segments: Additives, Colors and Consumer Care. On May 31, 2000, the Company completed the sale of its Performance Polymers business and therefore, excluded it from the segment data (see Note 3).

In 1999, Additives, under a program to realign the Company's businesses, was enlarged through the addition of the Company's water treatments operations. Water Treatments became 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 additional transparency of the division's results.

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 unit offers products to help clean industrial and municipal effluent and to improve the efficiency of paper, mineral and oil processing.

The Colors division 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's products provide rich hues and long-lasting colors for clothing, curtains, carpets, automobiles, children's toys, magazines and other items.

Consumer Care division develops, manufactures and markets products for four end-use industries (i) home and fabric care, (ii) personal care, (iii) paper and (iv) textiles. Among its major product offerings into these industries are whiteners for detergents, paper and textiles products; antimicrobials for textile, home and fabric care and personal care products; UV (ultraviolet) absorbers for home and fabric care, personal care and textile products; specialty colors for paper and home and personal care products as well as for textile processing and finishing products for the textile industries.

See Notes to Consolidated Financial Statements

Geographic Data

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

Net Sales to Customers	2000	1999
Europe		
Germany	618	606
United Kingdom	394	385
Italy	366	358
France	325	326
Rest of European Union	899	865
Switzerland	84	79
Rest of Europe	227	207
Total Europe	2 913	2 826
Western Hemisphere		
United States of America	2 025	1 882
Canada	276	231
Central America	247	206
South America	388	301
Total Western Hemisphere	2 936	2 620
Eastern Hemisphere		
Japan	528	483
Region China	413	318
Rest of Asia	689	570
Australia and New Zealand	158	161
Africa and Middle East	265	266
Total Eastern Hemisphere	2 053	1 798
Total net sales to customers	7 902	7 244

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

Long-lived Assets	2000	1999
Europe		
Germany	409	453
United Kingdom	679	738
Italy	166	135
France	135	152
Rest of European Union	62	84
Switzerland	671	697
Rest of Europe	1	1
Total Europe	2 123	2 260
Western Hemisphere		
United States of America	1 190	1 185
Canada	8	9
Central America	108	104
South America	35	35
Total Western Hemisphere	1 341	1 333
Eastern Hemisphere		
Japan	29	33
Region China	204	202
Rest of Asia	58	50
Australia and New Zealand	22	26
Africa and Middle East	10	10
Total Eastern Hemisphere	323	321
Total long-lived assets	3 787	3 914

Long-lived assets represent 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 percent ownership interest) are accounted for under the equity method of accounting. Investments in which the Company has less than a 20 percent 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) in the Consolidated Statements of Income.

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 in the Consolidated Statements of Income.

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.

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 at acquisition cost 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 percent 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 in the accompanying Consolidated Balance Sheets.

Revenue Recognition

Revenue is recognized upon shipment of goods to customers.

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 also 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

Effective January 1, 2001, the Company adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Activities, an amendment to FASB Statement No. 133" which replaces existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities. These statements expand the previous accounting definition of derivatives to include embedded derivatives and many commodity contracts. Under the statement, all derivatives, such as interest rate swap contracts and foreign exchange contracts, 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. Management estimates that the impact of the adoption will not have a material effect on the Company's 2001 results of operations and financial position.

Reclassifications

Certain reclassifications to the 1999 financial statements and related footnote amounts have been made to conform with the 2000 presentation.

2. Exchange rates of principal currencies

	Statement of income average rate		Balance sheet year-end rates	
	2000	1999	2000	1999
1 U.S. dollar (USD)	1.69	1.50	1.67	1.58
1 British pound (GBP)	2.56	2.42	2.46	2.55
1 Euro ⁽¹⁾ (EUR)	1.56	1.60	1.53	1.60
100 German marks (DEM)	79.62	81.82	77.97	81.92
100 French francs (FRF)	23.74	24.40	23.25	24.43
1000 Italian lira (ITL)	0.80	0.83	0.79	0.83
100 Japanese yen (JPY)	1.57	1.32	1.48	1.53

⁽¹⁾ On January 1, 1999, eleven (2001: twelve) 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.

3. Acquisitions and divestitures

Divestment of Performance Polymers business

On December 14, 1999, the Company signed an agreement under which Morgan Grenfell Private Equity (MGPE), the private equity arm of Deutsche Bank AG, agreed to buy the Performance Polymers business. The results of operations of the Performance Polymers business for the period from December 14, 1999 to December 31, 1999 were not material. The agreement was amended on May 20, 2000, and the transaction was completed on May 31, 2000 (the "Closing Date"). Total gross proceeds from the sale of the Performance Polymers business to MGPE and Asian joint venture partners were approximately CHF 1.6 billion, which includes the net debt assumed of approximately CHF 160 million.

The Performance Polymers division produced epoxy resins and other high performance thermosets that provide durability, extraordinary strength and resistance to heat and corrosion. Performance Polymers supplied 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 operations of the Performance Polymers division, have been reported as discontinued operations in the Consolidated Financial Statements and Notes in 2000 and 1999. The results of the 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.

In 1998, the Company incurred restructuring and special charges related to the Performance Polymers division's profit recovery program. Under this program, the Performance Polymers division instituted several actions to restore profitability. As part of the cost reduction program, the Performance Polymers division eliminated approximately 650 employees, principally in the administration, sales and marketing functions. The 1999 provision related to Performance Polymers restructuring programs of CHF 47 million is included in net current assets of discontinued operations in the accompanying Consolidated Balance Sheets. This program was completed in 2000.

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

Year ended December 31,	2000 ⁽¹⁾	1999
Net sales	774	1 729
Income before income taxes and minority interest	57	131
Provision (benefit) for income taxes	21	45
Minority interest	1	1
Income from operations of the Performance Polymers business, net of tax	37	87
(Loss) from sale of net assets of Performance Polymers business, net of tax ⁽²⁾	(3)	
Gain on sale of discontinued operations, net of tax	34	

⁽¹⁾ The 2000 income statement data reflects the Performance Polymers operating results through to the Closing Date.

⁽²⁾ The loss from sale includes transaction related taxes of approximately CHF 160 million and costs associated with selling the business.

December 31,	2000	1999
Net assets		
Accounts receivable, net	–	308
Inventories	–	278
Prepaid and other current assets	–	62
Accounts payable	–	(179)
Accruals and other current liabilities	–	(143)
Net current assets of discontinued operations	–	326
Property, plant and equipment, net	–	536
Goodwill, other intangibles and other assets, net	–	157
Financial investments	–	24
Other liabilities and deferred income taxes	–	(129)
Net long-term assets of discontinued operations	–	588
Net assets of discontinued operations	–	914

The elimination of the net assets of discontinued operations at December 31, 2000, reflects the sale of the Performance Polymers business on May 31, 2000.

Other acquisitions and divestitures

In December 2000, the Company sold 14 525 000 shares of its investment in its equity affiliate Hexcel Corporation representing approximately 81 percent of its 49.3 percent investment for CHF 277 million (USD 160 million), of which CHF 62 million (USD 36 million) is payable with a 7 percent interest bearing note, due December 31, 2004. The sale resulted in a pre-tax gain of approximately CHF 71 million or CHF 50 million after tax. (See Notes 8 and 10).

In November 2000, the Company concluded the acquisition of certain paper-chemical product lines and technology from Cytec Industries for a total purchase price of approximately CHF 40 million (USD 23 million). The resulting intangibles, including goodwill are being amortized over 12 years. This acquisition complements and expands the Company's product offerings to the paper industry, one of its strategic industry segments.

In March 2000, the Company announced the completion of its purchase of Prochimica s.r.l., the Company's key photoinitiator supplier. The Company paid CHF 85 million and accounted for the acquisition under the purchase method of accounting with the resulting goodwill being amortized over 10 years.

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

4. Accounts receivable

	2000	1999
Accounts receivable	1 306	1 366
Allowance for doubtful accounts	(118)	(125)
Total	1 188	1 241

5. Inventories

	2000	1999
Raw materials	214	208
Work in process and finished goods	1 554	1 530
Allowance for obsolete and slow moving inventory	(73)	(78)
Total	1 695	1 660

6. Property, plant and equipment

	Land 2000	Buildings 2000	Machinery and equipment 2000	Construction in progress 2000	Total 2000	Total 1999
Cost at January 1	131	1 865	5 522	405	7 923	7 518
Additions	0	2	38	209	249	267
Retirements/disposals	(6)	(33)	(45)	(6)	(90)	(240)
Changes in consolidation scope	5	11	25	1	42	(95)
Currency adjustments	(2)	(9)	(23)	17	(17)	477
Other	0	98	348	(455)	(9)	(4)
Cost at December 31	128	1 934	5 865	171	8 098	7 923
Accumulated depreciation at January 1		(846)	(3 163)		(4 009)	(3 665)
Depreciation		(56)	(321)		(377)	(377)
Accumulated depreciation on retirements/disposals		20	33		53	182
Changes in consolidation scope		0	(5)		(5)	37
Currency adjustments		5	25		30	(181)
Other		(1)	(2)		(3)	(5)
Accumulated depreciation at December 31		(878)	(3 433)		(4 311)	(4 009)
Net book value at December 31	128	1 056	2 432	171	3 787	3 914

The insurance value of the property, plant and equipment was approximately CHF 10 622 million and CHF 10 643 million at December 31, 2000 and 1999, respectively.

7. Goodwill and other intangible assets

	2000	1999
Goodwill	2 416	2 401
Other intangibles	85	77
Less accumulated amortization	(261)	(186)
Total	2 240	2 292

8. Financial investments and instruments**Financial investments**

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, 2000 and December 31, 1999:

	2000		1999	
	Book value	Fair value	Book value	Fair value
Financial investments				
Investment in Hexcel Corporation ⁽¹⁾	52	52	214	158
Investments in other equity affiliates	278	278	302	302
Investments in unconsolidated companies	14	14	37	37
Total financial investments	344	344	553	497
Long-term debt, including current position	3 861	3 726	4 268	3 975

⁽¹⁾ During periods of 1999, including at December 31, 1999, the Company's investment in Hexcel Corporation exceeded the quoted market value of the investment as a result of the continuing weakness of the aerospace and defense industry in the United States equity market. Management believed this situation to be temporary.

In December 2000, the Company sold 14 525 000 shares of its investment in Hexcel Corporation ("Hexcel") reducing its ownership interest from approximately 49.3 percent to approximately 9.5 percent (see Notes 3 and 10). As a result, at December 31, 2000, the investment is accounted for as an available-for-sale security. At December 31, 1999, the Company's investment included its share of Hexcel's shareholders' equity.

The following table presents summarized financial information on a 100 percent basis for the companies accounted for as investments in equity affiliates as of December 31, 2000 and 1999. The most significant of these are: CIMO Compagnie Industrielle de Monthey SA (50 percent), Daihan Swiss Chemical Corp. (50 percent), TFL Ledertechnik GmbH & Co. KG (50 percent) and Musashino-Geigy Co. Ltd. (50 percent), all of which have maintained the same level of investment in 2000 and 1999. The equity investment in Hexcel is shown separately due to its size. The figures for the year 2000 exclude total assets and shareholders' equity of Hexcel as a result of the sale of the Company's majority interest in December 2000, which reduced the Company's ownership interest to approximately 9.5 percent. In 1999 the Company's equity ownership percentage in Hexcel was 49.3 percent. Effective January 2001, the Company acquired a controlling interest in Musashino-Geigy Co. Ltd., increasing its holdings from 50 percent to 60 percent.

2000	Hexcel	Other	Total
Sales	1 791	678	2 469
Income before taxes	141	66	207
Net income	97	44	141
Total assets	0	937	937
Shareholders' equity	0	538	538

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

The income from earnings of equity affiliates of CHF 113 million (CHF 15 million in 1999) 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 32 million (CHF 6 million in 1999) is included in the Company's provision for income taxes.

The investment in Hexcel was recorded using a one quarter time lag. In 2000, the Company recognized CHF 66 million as its share of Hexcel's income (1999: CHF 17 million loss), included in the line income from earnings of equity affiliates, and a provision for income taxes of CHF 22 million (credit of CHF 1 million in 1999) as its share of the related Hexcel income taxes in the line provision for income taxes in the accompanying Consolidated Statements of Income. Included in Hexcel's 2000 income from earnings of equity affiliates is CHF 57 million, representing the Company's share of the gain recognized by Hexcel on the sale of its Bellingham Aircraft business. The associated taxes recognized by Hexcel on this gain, of CHF 18 million, is included in the line provision for income taxes in the accompanying Consolidated Statements of Income.

Financial instruments

All 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 fair values and notional principal amount of derivative instruments at December 31, 2000 and December 31, 1999:

2000	Book value	Fair value	Notional principal amount ⁽¹⁾
Financial instruments			
Foreign currency forward contracts	33	33	1 033
Foreign currency options contracts	3	3	704
Foreign currency swaps	6	6	1 511
Interest rate contracts	7	(7)	1 400

1999	Book value	Fair value	Notional principal amount ⁽¹⁾
Financial instruments			
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

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 and written option contracts 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 interest rate swaps and forward rate agreements 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 or its equivalent and with significant experience with such instruments.

9. Accruals and other current liabilities

	2000	1999
Payroll and employee benefits	274	193
Environmental remediation and compliance	61	56
Restructuring	368	44
Pension and postretirement benefits	27	24
Deferred income taxes	109	66
Other	592	438
Total	1 431	821

Included in restructuring, in 2000, is CHF 52 million for restructuring programs (see Note 10) and CHF 316 million for accrued separation costs and transaction taxes related to the divestment of the Performance Polymers business (see Note 3).

10. Restructuring and special charges**Current year programs**

In 2000, the Company incurred net restructuring and special charges of CHF 2 million. This charge includes a CHF 71 million gain from the sale of 14 525 000 shares of the Company's investment in Hexcel, at USD 11.00 per share, which represents approximately 81 percent of the Company's holdings (see Notes 3 and 8). Also included is a charge of CHF 21 million which relates to an impairment loss on certain equity investments. The restructuring projects, totaling CHF 52 million, comprise primarily the restructuring of Water Treatments operations in the United States, mainly relating to the closure of a manufacturing facility, the reorganization of the Company's administration functions in Southern Europe and the reduction of personnel, principally at an Additives and Consumer Care manufacturing facility in the United States. Severance cost for approximately 238 full-time equivalents ("FTEs") included in the 2000 restructuring charge resulted from the elimination of positions in the United States and Southern Europe, principally in the administration, sales and marketing functions and in the manufacturing function in the United States. As of December 31, 2000, no terminations have occurred. The terminations and restructuring programs are expected to be substantially completed during 2001.

The costs and activity associated with the current year restructuring programs are summarized below:

2000	Severance costs	Other costs	Total
Restructuring expense	30	22	52
Amounts utilized	0	0	0
December 31,	30	22	52

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

Prior year programs

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.

In 1998, the Company incurred restructuring charges related to restructuring programs for the strategic realignment of the Company's business which included the formation of the Colors division and the integration of Water Treatments. Included in these 1998 restructuring programs was severance cost for approximately 450 FTEs which resulted from the elimination of positions in various locations of the Company's worldwide operations principally in the administration, sales and marketing functions.

All of the Company's prior year restructuring programs were completed in 2000.

The costs and activity associated with the prior year restructuring programs are summarized below:

2000	Severance costs	Other costs	Total
January 1,	35	9	44
Restructuring expense ⁽¹⁾	0	0	0
Amounts utilized ⁽²⁾	(35)	(9)	(44)
December 31,	0	0	0

1999	Severance costs	Other costs	Total
January 1,	120	68	188
Restructuring expense ⁽¹⁾	0	0	0
Amounts utilized ⁽²⁾	(85)	(59)	(144)
December 31,	35	9	44

⁽¹⁾ Included in 1999 restructuring expense 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.

11. Short-term debt

	2000	1999
Multicurrency revolving loan agreement	0	474
Bank overdrafts	71	80
Loans	119	386
Commercial paper	12	48
Other	167	183
Current portion of long-term debt	2	3
Total	371	1 174

In January 1998, the Company entered into a multicurrency revolving loan agreement. At December 31, 2000 and 1999, the available commitments under this agreement were CHF 400 million and CHF 600 million, respectively. A commitment fee of 0.10 percent per annum is paid on the average unused facility. The outstanding loans bear interest at the London Interbank Offered Rate ("LIBOR") plus 21.5 basis points. The agreement expires on July 11, 2002. At December 31, 2000, the facility was unused and at December 31, 1999, CHF 474 million (USD 300 million) was outstanding.

In July 1998, the Company implemented a USD 1 000 million commercial paper program in the United States. At December 31, 2000 and 1999, CHF 1 million (USD 0.6 million) and CHF 45 million (USD 28 million) respectively, was outstanding under this program. The program is secured by a USD 250 million standby credit facility.

The CHF 300 million multicurrency standby facility with a major Swiss bank, entered into in 1998, expired on June 30, 2000 and was not renewed. This facility bore interest at LIBOR plus 20.0 basis points and a facility fee of 0.08 percent per annum was paid on the total amount.

The weighted average interest rate for short-term debt (excluding current portion of long-term debt) calculated at December 31, 2000 and 1999, was 6.6 percent and 6.7 percent, respectively. At December 31, 2000 and 1999, unused short-term credit lines totaled approximately CHF 1 229 million and CHF 1 388 million, respectively.

12. Long-term debt

	2000	1999
Bonds and Euro Medium-Term Notes	2 648	3 071
Convertible bonds	1 107	1 032
Amounts owed to credit institutions	8	21
Other long-term debt	98	144
Total	3 861	4 268
Less: current portion of long-term debt	2	3
Total long-term debt	3 859	4 265

Bonds and Euro Medium-Term Notes

CHF 1 000	3.25% Straight Bonds, principal due 2008	1 011	1 012
CHF 300	3.25% Straight Bonds, principal due 2009	304	304
USD 178	U.S. pollution control and industrial development bonds, principal due between 2008 and 2028 (weighted average interest rate of 4.61%)	298	282
Total Bonds		1 613	1 598
GBP 243 ⁽¹⁾	6.50% Euro Medium-Term Note, principal due 2013	584	766
USD 175 ⁽²⁾	6.125% Euro Medium-Term Note, principal due 2003	275	457
DEM 223 ⁽³⁾	4.875% Euro Medium-Term Note, principal due 2005	176	250
Total Euro Medium-Term Notes		1 035	1 473
Total Bonds and Euro Medium-Term Notes		2 648	3 071

⁽¹⁾ 1999: GBP 300. ⁽²⁾ 1999: USD 300. ⁽³⁾ 1999: DEM 300.

Under the Euro Medium-Term Note program, the Company may issue up to USD 2 000 million multicurrency unsecured, unsubordinated notes with a minimum maturity of one month and at fixed, floating or indexed interest rates.

In June 1998, the Company issued a USD 300 million Euro Medium-Term Note, with a 6.125 percent 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 percent 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 percent fixed interest rate for a floating rate based on the Swiss franc London Interbank Offered Rate plus 4.38 percent. In 2000, these interest and currency swaps were canceled.

In July 1998, the Company issued USD 687 million unsecured, unsubordinated convertible bonds, due July 10, 2003, with a 1.25 percent 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, 2000 and 1999, 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, 2000 are as follows: 2001 CHF 2 million; 2002 CHF 3 million; 2003 CHF 1 495 million; 2004 CHF 0 million; 2005 CHF 174 million; 2006 and thereafter CHF 2 199 million.

13. Income taxes

The provision for income taxes in 2000 and 1999 from continuing operations consists of the following:

	2000	1999
Current provision	49	82
Deferred provision	179	35
Total provision for income taxes	228	117

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:

	2000 %	1999 %
Expected tax rate	30	30
Non-deductible items	14	7
Tax free income	(1)	(3)
Income taxed at reduced rates	0	(2)
Changes in valuation allowance	(11)	(1)
Other	3	2
Effective tax rate	35	33

"Non-deductible items" includes the tax effect of amortization of goodwill. In 2000, also included is the tax effect of the impairment loss on certain of the Company's equity investments (see Note 10) and the effect of certain taxable income in one of the Company's subsidiaries that was not recognized for financial accounting purposes. The change in valuation allowance is primarily the result of the realization of tax loss carryforwards for which the Company had previously recorded a valuation allowance, as at the time of their origination, realization was uncertain.

In 2000 and 1999, "Other" includes approximately CHF 13 million and CHF 4 million of tax expense or 2 percent and 1 percent, respectively, reflecting the effect of the reduction in the German statutory tax rates on year-end 2000 and 1999 net deferred tax asset balances, respectively, of the Company's German subsidiaries.

Notes to Consolidated Financial Statements

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

Excluding the impact of these 2000 events, for comparability with the prior years effective tax rate, the effective tax rate in 2000 would have been 34 percent.

The significant components of activities that gave rise to deferred tax assets and liabilities on the balance sheet at December 31, 2000 and 1999, were as follows:

	2000	1999
Deferred tax assets:		
Pensions and other employee compensation	91	104
Inventory	48	56
Restructuring and special charges	84	24
Environmental reserves	259	287
Tax loss carryforwards	135	175
Other	33	64
Gross deferred tax assets	650	710
Valuation allowance	(143)	(217)
Net deferred tax assets	507	493
Deferred tax liabilities:		
Property, plant and equipment	(394)	(389)
Other	(160)	(193)
Gross deferred tax liabilities	(554)	(582)
Net deferred tax liabilities	(47)	(89)
Included in:		
Prepaid and other current assets	222	175
Other assets	157	123
Accruals and other current liabilities	(109)	(66)
Deferred income taxes	(317)	(321)
Net deferred tax liabilities	(47)	(89)

In management's opinion 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 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 415 million, of which CHF 76 million will expire in the next five years and CHF 209 million will expire between five and twenty years. The remaining carryforwards do not expire.

At December 31, 2000, unremitted earnings of subsidiaries outside of Switzerland of approximately CHF 250 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.

14. Other liabilities

	2000	1999
Environmental remediation and compliance	737	733
Pension and postretirement benefits	577	592
Other	409	189
Total	1 723	1 514

The environmental remediation and compliance liability of CHF 737 million (CHF 733 million in 1999) has been recorded on an undiscounted basis.

15. Shareholders' equity

On April 20, 1998 the Company's shareholders approved the creation of authorized and conditional 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. After a re-approval by the shareholders due to requirements of Swiss law, another 4 million shares may now be issued until April 13, 2002 without a restriction.

The Company sold 4 862 shares in 2000 (1 679 shares in 1999) of treasury stock at market prices. In 2000, the Company purchased 391 177 shares of treasury stock (none in 1999) at market prices.

The Company designated a total of 5 485 963 shares in 2000 (5 304 753 shares in 1999) of its treasury stock as reserved shares primarily for satisfaction of future share requirements under its various outstanding employee stock option plans and for the potential share issuance under its outstanding convertible bonds (see Notes 12 and 16). The remaining 575 471 shares in 2000 (370 366 shares in 1999) of treasury stock have been designated as unreserved shares.

The after-tax components of accumulated other comprehensive income are as follows:

	2000	1999
Foreign currency translation adjustment	(117)	62
Unrealized gains on available-for-sale securities, net of tax	0	(1)
Other	1	(1)
Accumulated other comprehensive income	(116)	60

16. 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 opportunity to purchase a total of 288 400 restricted shares of common stock of the Company at a price per share of CHF 110, which was the market price per share on the purchase date. For each share purchased, each participant was granted a right to receive four share options (total 1 153 600) with an exercise price of CHF 110 per share, the market value of the shares at the grant date. 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 restricted shares will be released to the participants on March 15, 2002. The share options became fully vested on March 1, 2000, and may be exercised on the 15th day of any month beginning March 15, 2002 through March 15, 2005, the date the share options expire. As a result of terminations from the program, a total of 60 418 options (1999: 58 148 options) have been returned to the Company.

The Company paid a fee of CHF 51 million to a major investment bank to assume the Company's obligations to the participants under the LEAP, including supplying all necessary equivalent shares of the Company's stock to the participants of the LEAP when they are due and administering the plan. Even if the cost of supplying the shares exceeds the fee paid by the Company of CHF 51 million, the investment bank will supply all necessary shares and the Company will not be required to issue any additional shares. Therefore, independent of the prevailing future share price, the total cost of the LEAP program to the Company will be the CHF 51 million fee that was paid. Compensation expense has been recognized as this fee was amortized ratably over the three year vesting period through March 1, 2000.

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 one share of common stock of the Company for each right granted in the event that the closing share price on any seven days up to August 31, 2001, the date the share option expires, equals or exceeds CHF 264 per share (which is double the price at the initial grant date in August 1997). Under the program a total of 5 participants were granted 8 192 rights in 1998 and 333 participants were granted 342 572 rights in 1997. As a result of terminations from the program, a total of 41 356 rights (26 820 rights in 1999) have been returned to the Company resulting in a total of 309 408 rights outstanding at December 31, 2000 (323 944 at December 31, 1999). No compensation expense was recorded either in 2000 or in 1999, since the target price was not reached.

LTIP – In 1998, the Company established a Long-Term Incentive Plan which grants options and beginning in 2000, may also include grants of restricted shares of common stock of the Company to senior management and other employees. For grants made to participants other than those in the United States, vesting is at the date of grant and the right to exercise is restricted for three years following the grant date. For grants made to participants in the United States, vesting and the right to exercise is over three years. The options expire either five years or ten years after the date of grant. In 2000 and 1999, no compensation expense was recorded for the options issued under this plan.

The following table summarizes option activity under the LTIP during 2000 and 1999:

	Weighted average exercise price	Options outstanding
Balance at December 31, 1998	165	351 055
Options granted	113	521 088
Options canceled/forfeited	152	(14 235)
Balance at December 31, 1999	134	857 908
Options granted	108	461 210
Options canceled/forfeited	118	(19 218)
Balance at December 31, 2000	125	1 299 900

In connection with the LTIP 2000, the Company granted 33 288 restricted shares of common stock, which are restricted for three years from the date of grant, to 378 participants. The market value of the common stock at the date of grant was CHF 108 per share. Compensation expense of approximately CHF 3.6 million has been recognized in 2000 related to the grant of these shares.

The following table summarizes the status of stock options outstanding and exercisable at December 31, 2000:

Weighted average exercise price	Stock Options Outstanding		Stock Options Exercisable	
	Number of outstanding options	Weighted average remaining contractual life (in years)	Number of outstanding options	Weighted average remaining contractual life (in years)
108	455 760	6.5	100	9.1
113	506 121	5.0	58 556	8.3
165	338 019	3.1	50 479	7.0
	1 299 900		109 135	

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 ten years from date of grant. As of December 31, 2000, 40 695 stock appreciation rights are exercisable with a remaining contractual life of seven years and 7 801 of the stock appreciation rights have been forfeited. In 2000 and 1999, 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 of CHF 183. For each share purchased, four stock options (total 24 028) were granted to the participants. The strike price of the options is the market value of the shares of common stock at the date of the grant, CHF 183. These options vest after four years and expire after seven years from date of grant. As of December 31, 2000, 12 560 of the stock options have been forfeited. In 2000 and 1999, 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 percent of the average market price, as defined as the average closing price of the shares on the Swiss Exchange for ten trading days prior to the purchase date of the shares, pursuant to the Company's "Employee Share Ownership Plan". During 2000, 2 836 employees (1999: 3 515 employees) purchased 50 099 shares (1999: 63 929 shares) for which approximately CHF 5 million (1999: CHF 6 million) was paid to the Company. In 2000 and 1999, 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 (so long as the share price is not greater than CHF 200 at which level the Employee Investment Plan price is adjusted). The rights vest at the grant date and become exercisable at the date of the employees’ retirement or termination. As of December 31, 2000, 307 060 rights (1999: 223 800 rights) have been granted and 74 300 (1999: 35 160) were exercised. Compensation expense is recorded in the year the rights are granted and in 2000 CHF 10 million (CHF 10 million in 1999) 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 for LEAP 30 percent, for CAPS 20 percent, for LTIP 1998, 50 percent, and for LTIP 1999 and 2000, 33.33 percent, such percentage, in each case, as a percentage of total voting power), 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 percent of its common stock (exclusive of the shares purchased from Novartis AG in the spin-off). At December 31, 2000, the Company had 1.7 million shares (1999: 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 2000 and 1999 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 No. 123. The pro forma amounts presented below reflect the portion of the estimated fair value of awards granted in 2000 and 1999, based on the vesting or service period over which the awards are earned.

Year ended December 31,	2000	1999
Pro forma net income		
Continuing operations	410	224
Discontinued operations	34	87
Total	444	311
Pro forma earnings per share – basic		
Continuing operations	6.19	3.37
Discontinued operations	0.50	1.31
Total	6.69	4.68
Pro forma earnings per share – diluted		
Continuing operations	6.19	3.37
Discontinued operations	0.50	1.31
Total	6.69	4.68

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

Year ended December 31,	2000	1999
Expected option lives in years	7.36	6.82
Expected volatility in %	32.36	40.29
Risk-free interest rate in %	3.94	2.06
Expected dividend yield in %	1.85	1.71
Weighted average fair value in CHF	36.14	42.91

17. 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 in which the Company operates. The Company has both contributory and non-contributory defined benefit and defined contribution plans.

Defined contribution plans:

In countries in which employees are covered by defined contribution plans, contributions charged to income from continuing operations were CHF 19 million in 2000 (CHF 13 million in 1999).

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	
	2000	1999	2000	1999
Major plans:				
Service cost	114	120	1	2
Interest cost	162	161	5	4
Expected return on plan assets	(239)	(216)	0	0
Amortization of prior service cost	(3)	0	(1)	(1)
Other (gains), losses and amortization	(36)	(35)	(3)	(4)
Pension expense major plans	(2)	30	2	1
Other plans	3	1	0	0
Total pension expense⁽¹⁾	1	31	2	1

⁽¹⁾ In connection with the sale of the Performance Polymers business on May 31, 2000 (see Note 3), the pension benefits and post-retirement benefits, liabilities and related assets for the active employees and certain retirees of the Performance Polymers business were assumed by the purchaser. For 1999, 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.

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, 2000 and 1999:

	Pension benefits		Postretirement benefits	
	2000	1999	2000	1999
Benefit obligation, beginning of year	3 588	3 094	73	79
Service cost	114	120	1	2
Interest cost	162	161	5	4
Participant contributions	23	25	0	0
Actuarial (gain) loss	(33)	101	(2)	(1)
Plan amendments	(4)	1	(2)	0
Change in consolidation scope	(339)	35	(8)	(17)
Benefits paid	(141)	(90)	(5)	(4)
Foreign currency translation	(30)	141	4	9
Other	0	0	0	1
Benefit obligation, end of year	3 340	3 588	66	73
Plan assets, beginning of year	3 862	3 284	0	0
Actual return on plan assets	463	391	0	0
Employer contributions	59	64	5	4
Participant contributions	23	25	0	0
Change in consolidation scope	(302)	11	0	0
Benefits paid	(141)	(90)	(5)	(4)
Foreign currency translation	(25)	177	0	0
Other	0	0	0	0
Plan assets, end of year	3 939	3 862	0	0
Funded status	599	274	(66)	(73)
Unrecognized net (gain) loss	(510)	(332)	(19)	(18)
Unrecognized prior service cost	(4)	(16)	(9)	(10)
Prepaid (accrued) pension cost⁽¹⁾	85	(74)	(94)	(101)

⁽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 425 million in 2000 and 485 million in 1999, respectively. Those plans have aggregate accumulated benefit obligations of CHF 464 million and CHF 529 million and plan assets of CHF 39 million and CHF 44 million in 2000 and 1999, 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 438 million in 2000 and CHF 474 million in 1999.

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

	Pension benefits		Postretirement benefits	
	2000	1999	2000	1999
Discount (interest rate)	5.5%	4.9%	7.7%	7.4%
Rate of increase in compensation levels	3.2%	2.8%	n.a.	n.a.
Expected long-term rate of return on plan assets	6.3%	6.4%	n.a.	n.a.

The healthcare cost trend rate is assumed to decrease to an ultimate trend rate of 5 percent in 2005. A one percent annual increase in the assumed healthcare cost trend rate would increase the 2000 accumulated postretirement benefit obligation by approximately CHF 6 million and the annual postretirement benefit cost by approximately CHF 1 million. A one percent annual decrease in the assumed healthcare cost trend rate would decrease the 2000 accumulated postretirement benefit obligation by approximately CHF 6 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, 2000 and 1999 were approximately CHF 55 million and CHF 47 million, respectively.

Number of personnel and personnel expenses

The Company employed in its continuing operations 20 306 employees at December 31, 2000 and 20 117 at December 31, 1999. The Company's salaries and wages, including social charges in its continuing operations were CHF 2 047 million in 2000 and CHF 1 836 million in 1999.

The Company employed in its discontinued operations 3 072 employees at December 31, 1999. The Company's salaries and wages, including social charges in its discontinued operations were CHF 130 million for the five month period ended May 31, 2000, the date of Polymers divestment and were CHF 284 million in 1999.

18. Earnings per share

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

Year ended December 31,	2000	1999
Income from continuing operations	418	238
Income from discontinuing operations	34	87
Net income	452	325
Weighted average shares outstanding:		
Basic	66 311 879	66 454 357
Add incremental shares from stock option plans	0	8 541
Diluted	66 311 879	66 462 898
Basic earnings per share:		
Continuing operations	6.31	3.58
Discontinued operations	0.50	1.31
Net income	6.81	4.89
Diluted earnings per share:		
Continuing operations	6.31	3.58
Discontinued operations	0.50	1.31
Net income	6.81	4.89

Diluted earnings per share assumes (i) that the 1.25 percent convertible bonds, issued in 1998, were converted at the beginning of the year in 2000 and 1999, 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, 2000 and 1999, the calculation of diluted earnings per share excluded the assumed conversion of the 1.25 percent convertible bonds, issued July 1998, due 2003, as their inclusion would have been antidilutive. In 2000, the calculation of diluted earnings per share excluded 1 297 543 stock options (1999: 417 153) with exercise prices between CHF 108 and CHF 183 as their exercise prices were greater than the average market price of the common shares for the year.

19. Related party transactions**Transactions with associated companies**

The Company had receivables of CHF 12 million and CHF 22 million in 2000 and 1999, respectively.

Investments in affiliates of CHF 330 million and CHF 516 million are included in financial investments in 2000 and 1999, respectively, and are described in Note 8.

Loans receivable from equity affiliates of CHF 52 million and CHF 57 million are included in other assets in 2000 and 1999, respectively. They consist primarily of CHF 42 million (USD 25 million) and CHF 39 million (USD 25 million) in 2000 and 1999, respectively, due from Hexcel Corporation bearing interest at variable rates and is due in 2003, and CHF 10 million and CHF 10 million, for 2000 and 1999, respectively, due from CIMO Compagnie Industrielle de Monthey SA, bearing interest at 2 percent in 2000 and 2 percent in 1999.

The Company had payables and accrued expenses of CHF 46 million and CHF 108 million in 2000 and 1999, respectively, to equity affiliates.

Other

The fair value of the compensation paid to members of the Board of Directors was CHF 1.6 million in 2000 and CHF 1.5 million in 1999. There were no loans between the Company and members of the Board of Directors.

20. Commitments and contingencies**Lease Commitments**

The Company leases certain facilities under operating leases. The future minimum lease commitments required under fixed term leases are: 2001 CHF 46 million; 2002 CHF 35 million; 2003 CHF 27 million; 2004 CHF 52 million; 2005 CHF 16 million; 2006 and thereafter CHF 5 million. Rental expense amounted to CHF 85 million and CHF 75 million in 2000 and 1999, 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.

Guarantees

In the normal course of business, the Company has provided guarantees of approximately CHF 40 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 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. In connection with its Toms River, New Jersey site in the United States, the Company has been named as a defendant in several actions (see "Environmental matters" below). Since these cases are at a very early stage, a reasonable estimate of the total costs related thereto is not possible. Although the outcome of any legal proceedings cannot be predicted with certainty, the Company believes that there are no such matters pending which could be material in relation to its business, financial position or results of operations.

Pursuant to the spin-off, the Company and Novartis AG ("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.

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 1996 opening tax balance sheet of the Grenzach company as a result of the spin-off from Novartis. The German tax authorities have made a substantial tax adjustment. In accordance with the Master Spin-off Agreement with Novartis and with Swiss commercial law, management is of the opinion that the total liability owed is the responsibility of Novartis. In management's opinion, the ultimate outcome of this matter will not have a material adverse effect on the financial position or overall trends in the results of operations of the Company.

Environmental Matters

Operating in the chemical industry, the Company 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, the Company uses advanced waste treatment and disposal facilities 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 substantially complies with all such laws.

Prior to the Company's spin-off from Novartis, a Company-wide environmental audit was performed. Based on the results of the audit, management was of the opinion that CHF 738 million in reserves recorded at that time were sufficient to meet all then known and anticipated environmental claims and liabilities relating to the Company's past operations. These provisions were adjusted as further information developed or circumstances changed and amounted to CHF 798 million at December 31, 2000 (CHF 789 million at December 31, 1999). The main difference between 2000 and 1999 relates to changing foreign currency exchange rates, usage of the provisions, increases for new environmental claims, as discussed below, and by reductions in the provisions as a result of favorable settlement of previous environmental claims and updates to the estimated costs to complete outstanding claims and issues. The Company's environmental protection and improvement cash expenditures were approximately CHF 61 million in 2000 (CHF 61 million in 1999), including investments in construction, operations and development.

In the agreement on the Company's spin-off from Novartis, Novartis agreed to reimburse the Company 50 percent of United States environmental liabilities arising from past operations of the Company in excess of the agreed reserves. Outside the United States, environmental liabilities are allocated between Novartis and the Company based on ownership of the site or, if environmental liabilities do not relate to production sites or these are not owned by either entity, according to the polluter pays principle. If causation between the parties cannot be determined, costs are shared equally. The agreement with Novartis is not subject to any time or amount limits but could terminate for certain liabilities in the United States (i) upon a sale of substantially all of the Company's assets, (ii) upon a change in control of the Company, or (iii) for individual facilities, upon the sale of the facility (unless the Company retains responsibility for any clean-up at such site).

In 1998, certain litigation matters related to sites located in the United States were settled with the insurance companies. The Company received the cash of approximately CHF 43 million, net of related legal costs incurred, in 1999. The Company has not reflected any potential insurance recoveries that may be available in the future.

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 reserves for all known environmental liabilities for remediation costs when a clean-up program becomes probable and costs can be reasonably estimated.

Clean-up of the most significant sites has been or is nearly completed, except for two major sites where remediation measures are still in discussion, as described in the following paragraphs.

At its Toms River, New Jersey remediation site the Company agreed with the United States Environmental Protection Agency in September 2000 on a Remedial Action Plan which now enters into its technical design and implementation phase. It is expected to involve significant expenses over a period of several years.

The contamination of the groundwater on the Toms River site has triggered, since May 2000, several actions against the Company in the New Jersey Chancery Court seeking medical monitoring as well as payment of damages for alleged injuries by a number of individuals who reside or resided in the vicinity of the Company's Toms River site during the years from 1952 to 1980 and were allegedly exposed to contaminated drinking water. These cases are in a very early stage, and the Company intends to defend itself vigorously. A third group of individuals defending the interests of a number of children who died or suffer from brain cancer allege that the groundwater contamination of the Toms River site may be the cause to these illnesses. This group of individuals entered into a standstill agreement with the Company regarding the statute of limitations.

In addition, as a result of past operations of the former Ciba-Geigy, the Company is involved in the planning of a remediation of the waste disposal site in Bonfol, Switzerland, which was closed in 1976. The responsibility for the clean-up lies with several chemical enterprises, including among others the Company, Clariant Ltd., Novartis and Roche Holding Ltd. The responsible companies closely cooperate with the competent authorities to define the necessary measures in view of a final remediation of the site. The Company cannot predict with certainty the total cost of such remediation, or the precise amount of time necessary to accomplish the remediation. It is currently estimated, however, that the remediation effort could require nine to fifteen years to complete.

The contractual terms of the sale of the Performance Polymers business stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Performance Polymers business prior to the closing date, whereby damages for remediation in connection with sites outside the United States shall cover only 80 percent of the respective costs. The responsibility with respect to any non-United States sites covers environmental liabilities incurred within fifteen years and is limited to CHF 75 million. With respect to any such environmental liabilities in the United States the Company's obligation to indemnify is unlimited in time or amount. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Performance Polymers business.

In management's opinion, the environmental reserves accrued are sufficient to meet all currently known and estimable environmental claims and contingencies. 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.

21. Valuation and qualifying accounts and reserves

Allowance for doubtful accounts:

For the year ended December 31,	2000	1999
Balance at beginning of year	125	111
Additions (deductions) charged (credited) to cost and expenses, net	24	19
Additions (deductions) – other, net ⁽¹⁾	(30)	(8)
Currency adjustments	(1)	3
Balance at end of year	118	125

Allowance for obsolete and slow moving inventory:

For the year ended December 31,	2000	1999
Balance at beginning of year	78	67
Additions (deductions) charged (credited) to cost and expenses, net	17	4
Additions (deductions) – other, net ⁽¹⁾	(22)	0
Currency adjustments	0	7
Balance at end of year	73	78

Deferred income tax valuation allowance:

For the year ended December 31,	2000	1999
Balance at beginning of year	217	182
Additions (deductions) charged (credited) to cost and expenses, net	(70)	(5)
Additions (deductions) – other, net ⁽¹⁾	(8)	27
Currency adjustments	4	13
Balance at end of year	143	217

⁽¹⁾ Additions (deductions) – other, net is primarily additions and deductions applicable to acquisitions and divestitures, amounts written-off and miscellaneous other adjustments.

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 16 to 36) of Ciba Specialty Chemicals Holding Inc. and its subsidiaries for the year ended December 31, 2000.

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



Eric G. Ohlund



Markus Schweizer

Basel, January 19, 2001

Summary of Selected Financial Data

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

	2000	1999	1998	1997
Results of operations				
Net sales	7 902	7 244	6 632	6 196
Operating income (loss)	876	632	(528)	357
Income (loss) from continuing operations ⁽¹⁾	418	238	(971)	222
Income (loss) from discontinued operations, net of tax ⁽²⁾⁽³⁾	34	87	(13)	60
Net income (loss) ⁽⁴⁾	452	325	(984)	282
Basic earnings (loss) per share				
Continuing operations ⁽¹⁾	6.31	3.58	(14.65)	3.25
Discontinued operations ⁽³⁾	0.50	1.31	(0.20)	0.88
Net income (loss) ⁽⁴⁾	6.81	4.89	(14.85)	4.13
Diluted earnings (loss) per share				
Continuing operations ⁽¹⁾	6.31	3.58	(14.65)	3.25
Discontinued operations ⁽³⁾	0.50	1.31	(0.20)	0.88
Net income (loss) ⁽⁴⁾	6.81	4.89	(14.85)	4.13
Equity per share ⁽⁵⁾	56.82	54.74	48.94	68.58
Dividend per share ⁽⁶⁾	2.00	2.00	2.00	2.00
Weighted average number of shares outstanding				
Basic	66 311 879	66 454 357	66 293 130	68 158 845
Diluted	66 311 879	66 462 898	66 293 130	68 158 845
Other data – continuing operations				
Net sales growth percentage	9%	9%	7%	14%
Restructuring and special charges ⁽⁷⁾	2	0	1 286	296
EBITDA ⁽⁸⁾ , before restructuring and special charges	1 348	1 086	1 175	972
EBITDA margin ⁽⁹⁾ , before restructuring and special charges	17.1%	15.0%	17.7%	15.7%
Capital expenditures	249	267	396	413
Depreciation and amortization	470	454	418	319
Research and development	293	256	249	250
Personnel costs	2 047	1 836	1 883	1 650
Number of employees at year end	20 306	20 117	21 148	18 137
Balance sheet data				
Current assets	4 797	4 272	4 284	4 734
Property, plant and equipment, net	3 787	3 914	3 853	3 454
Total assets	12 105	12 407	12 045	10 151
Short-term debt	371	1 174	1 905	1 814
Long-term debt	3 859	4 265	3 648	294
Common stock	721	721	721	721
Shareholders' equity	3 754	3 638	3 252	4 553

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

	2000	1999	1998	1997
Business segment data				
Additives⁽¹⁰⁾⁽¹¹⁾				
Net sales	3 740	3 443	2 921	2 349
<i>Additives excluding Water Treatments</i>	2 644	2 426	2 199	2 349
<i>Water Treatments</i>	1 096	1 017	722	–
Operating income	561	461	497	377
<i>Additives excluding Water Treatments</i>	483	411	412	377
<i>Water Treatments</i>	78	50	85	–
EBITDA ⁽⁸⁾	763	647	672	498
<i>Additives excluding Water Treatments</i>	627	533	532	498
<i>Water Treatments</i>	136	114	140	–
EBITDA margin ⁽⁹⁾	20.4%	18.8%	23.0%	21.2%
<i>Additives excluding Water Treatments</i>	23.7%	22.0%	24.2%	21.2%
<i>Water Treatments</i>	12.4%	11.2%	19.3%	–
Colors⁽¹²⁾				
Net sales	2 620	2 396	2 344	2 485
Operating income	321	231	207	276
EBITDA ⁽⁸⁾	452	356	327	401
EBITDA margin ⁽⁹⁾	17.2%	14.9%	14.0%	16.1%
Consumer Care⁽¹³⁾				
Net sales	1 542	1 405	1 367	1 362
Operating income	184	146	149	137
EBITDA ⁽⁸⁾	239	203	206	192
EBITDA margin ⁽⁹⁾	15.5%	14.4%	15.1%	14.1%
Discontinued operations⁽¹⁴⁾				
Performance Polymers business				
Net sales	774	1 729	1 791	1 626
Operating income (loss)	57	131	(17)	82
Gain on sale, net of tax	34	–	–	–
EBITDA ⁽⁸⁾	n.m.	193	140	217
EBITDA margin ⁽⁹⁾	n.m.	11.2%	7.8%	13.3%

See Glossary of Financial Terms

Footnotes

- (1) Included in income from continuing operations is restructuring and special charges, net of tax of CHF 2 million or CHF 0.03 per share in 2000, CHF 1 274 million or CHF 19.22 per share in 1998 and CHF 222 million or CHF 3.27 per share in 1997.
- (2) The 2000 income from discontinued operations of CHF 34 million represents the gain on sale of discontinued operations, net of tax for the Company's Performance Polymers business which was sold on May 31, 2000. This gain includes income from operations, net of taxes, of CHF 37 million and a CHF (3) million loss from the sale of the net assets of the Performance Polymers business. (See footnote ⁽¹⁴⁾ below).
- (3) Included in income from discontinued operations is restructuring and special charges, net of tax of CHF 68 million or CHF 1.03 per share in 1998 and CHF 56 million or CHF 0.82 per share in 1997.
- (4) Included in net income is restructuring and special charges, net of tax of CHF 2 million or CHF 0.03 per share in 2000, CHF 1 342 million or CHF 20.24 per share in 1998 and CHF 278 million or CHF 4.09 per share in 1997.
- (5) Equity per share is calculated by dividing the total shareholders' equity by the number of outstanding common shares (total common shares issued less treasury shares outstanding) at the balance sheet date.
- (6) The 2000 dividend per share is presented based on the proposal to the shareholders' meeting in 2001, based on 2000 results, and is subject to shareholders' approval.
- (7) Included in the 1998 restructuring and special charges is CHF 1 012 million for the write-off of acquired In-process research and development associated with the acquisition of Allied Colloids.
- (8) EBITDA is calculated as operating income plus depreciation and amortization.
- (9) EBITDA margin is EBITDA expressed as a percentage of net sales.
- (10) The net sales, EBITDA and EBITDA margin have been restated in 1998 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 additional transparency of the division's results.
- (11) Financial data for the Water Treatments business unit in 1998 is presented for the nine month period commencing April 1, 1998, the date of the Allied Colloids acquisition.
- (12) The net sales, EBITDA and EBITDA margin have been restated in 1997 to reflect the combination of the Company's Pigments and Textile Dyes business and the transfer of certain products of the former Textile Dyes division to the Consumer Care division to form the Colors division in 1998.
- (13) For comparative purposes, the 1997 Consumer Care financial data have been restated to reflect the effects of products transferred from the former Textile Dyes division.
- (14) Reflects the results of the Performance Polymers business as a discontinued operation due to its sale on May 31, 2000. The results represent substantially all of the operations 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. For 2000, the results are for the five month period ended May 31, 2000, the date of the divestment. (See Note 3 to the Consolidated Financial Statements.)

n.m.: Data is not meaningful as the Performance Polymers business was sold on May 31, 2000 (see footnote ⁽¹⁴⁾ above).

Major Consolidated Subsidiaries and Associated Companies

	Group holding %	Selling	Manufacturing	Research	Services, Finance
Europe					
Austria					
Ciba Spezialitätenchemie GmbH, Wien	100	•			
Belgium					
Ciba Specialty Chemicals N.V., Groot-Bijgaarden	100	•			
Finland					
Ciba Specialty Chemicals Finland OY, Helsinki	100	•			
France					
Ciba Spécialités Chimiques SA, Rueil-Malmaison	100	•	•		
Société Nouvelle de Chimie Industrielle (S.N.C.I.) SA, Saint Jeoire en Faucigny	100	•	•	•	
Société Pyrénéenne de coloration "Sopyco" Sàrl, Abidos Moureux	100	•	•		
Germany					
Ciba Spezialitätenchemie Grenzach GmbH, Grenzach-Wyhlen	100		•	•	
Ciba Spezialitätenchemie Holding Deutschland GmbH, Lampertheim	100				•
Ciba Spezialitätenchemie Lampertheim GmbH, Lampertheim	100	•	•	•	
Ciba Spezialitätenchemie Pfersee GmbH, Langweid/Lech	100	•	•	•	
TFL Ledertechnik GmbH & Co. KG, Weil am Rhein	50	•	•	•	
Greece					
Ciba Specialty Chemicals Hellas ABEE, Athens	100	•	•		
Hungary					
Ciba Specialty Chemicals Magyarorszag, Kft. Budapest	100	•			
Italy					
Ciba Specialty Chemicals S.p.A., Sasso Marconi (Bologna)	100	•	•	•	
Magenta Master Fibres, S.p.A., Milano	60	•	•	•	
Netherlands					
Ciba Specialty Chemicals International Nederland B.V., Maastricht	100				•
Ciba Specialty Chemicals (Maastricht) B.V., Maastricht	100	•	•	•	
Portugal					
Ciba Especialidades Químicas Lda., Porto	100	•			
Spain					
Ciba Especialidades Químicas S.L., Barcelona	100	•	•		
Sweden					
Ciba Specialty Chemicals Sweden AB, Göteborg	100	•			

	Group holding %	Selling	Manufacturing	Research	Services, Finance
Switzerland					
Ciba Spezialitätenchemie Holding AG, Basel⁽¹⁾					
Ciba SC Recherche Marly SA, Marly	100				•
Ciba Spécialités Chimiques Monthey SA, Monthey	100		•		
Ciba Spezialitätenchemie AG, Basel	100	•	•	•	
Ciba Spezialitätenchemie Finanz AG, Basel	100				•
Ciba Spezialitätenchemie International AG, Basel	100				•
Ciba Spezialitätenchemie Kaisten AG, Kaisten	100		•		
Ciba Spezialitätenchemie Schweizerhalle AG, MuttENZ	100		•		
Ciba Spezialitätenchemie Services AG, Basel	100				•
CIMO Compagnie Industrielle de Monthey SA, Monthey	50				•
Turkey					
Ciba Özel Kimyevi Ürünler Sanayi ve Ticaret Ltd., Istanbul	100	•			
United Kingdom					
Ciba Specialty Chemicals PLC, Macclesfield					
Ciba Specialty Chemicals Investment PLC, Macclesfield	100	•	•	•	
Ciba Specialty Chemicals Water Treatments Ltd., Bradford	100	•	•	•	
North America					
Bermuda					
Chemical Insurance Company Ltd., Hamilton					
Ciba Specialty Chemicals International Finance Ltd., Hamilton	100				•
Ciba Specialty Chemicals Investment Ltd., Hamilton	100				•
Canada					
Ciba Specialty Chemicals Canada Inc., Mississauga					
Ciba Specialty Chemicals Canada Inc., Mississauga	100	•	•		
Ciba Specialty Chemicals Water Treatments Corp., Brampton	100	•			
United States of America					
Ciba Specialty Chemicals Corporation, Tarrytown, NY					
Ciba Specialty Chemicals Corporation, Tarrytown, NY	100	•	•	•	
Ciba Specialty Chemicals Water Treatments Inc., Suffolk, VA	100	•	•	•	

	Group holding %	Selling	Manufacturing	Research	Services, Finance
Central America					
Argentina					
Ciba Especialidades Químicas S.A., Buenos Aires	100	•			
Brazil					
Ciba Especialidades Químicas Ltda., São Paulo	100	•	•		
Chile					
Ciba Especialidades Químicas Ltda., Santiago de Chile	100	•			
Ciba Especialidades Químicas Conosur S.A., Santiago de Chile	67	•			
Colombia					
Ciba Especialidades Químicas S.A., Bogota	100	•	•		
Guatemala					
Ciba Especialidades Químicas, S.A. (ACC), Guatemala	100	•	•		
Mexico					
Ciba Especialidades Químicas Mexico S.A. de C.V., Mexico	100	•	•		
Panama					
Ciba Especialidades Químicas Colon S.A., Colon	100	•			
Asia					
China					
Ciba Specialty Chemicals (China) Ltd., Beijing	100				•
Ciba Specialty Chemicals (Hong Kong) Ltd., Hong Kong	100	•			
Ciba Specialty Chemicals (Shanghai) Ltd., Shanghai	100	•			
Guangdong Ciba Specialty Chemicals Co., Ltd. Panyu, Guangdong	95	•	•		
Guangzhou Ciba Specialty Chemicals Co. Ltd., Guangzhou	80	•	•		
Qingdao Ciba Dyes Co. Ltd., Qingdao	94	•	•		
Qingdao Ciba Pigments Co. Ltd., Qingdao	91	•	•		
Shanghai Ciba Gao-Qiao Chemical Co. Ltd., Shanghai	67	•	•		
Shenzhen Ciba Specialty Chemicals Co. Ltd., Shenzhen	85	•	•		
Xiangtan Chemicals & Pigments Co. Ltd., Xiangtan	49	•	•		
India					
Ciba India Private Ltd., Mumbai	100				•
Ciba Specialty Chemicals (India) Ltd., Mumbai	51	•	•	•	
Diamond Dye-Chem Limited, Mumbai	51	•	•		
INDO Swiss Textile Chemicals Ltd., Mumbai	100	•	•		
Petro Araldite Pvt. Ltd., Chennai ⁽²⁾	76	•	•		

	Group holding %	Selling	Manufacturing	Research	Services, Finance
Pigments Specialties India Pvt. Ltd., Mumbai	100	•			
Swathi Organics & Specialities Pvt. Ltd., Pondicherry	22	•	•		
Indonesia					
P.T. Ciba Specialty Chemicals Indonesia, Jakarta	80	•	•		
Japan					
Chemipro Fine Chemical Kaisha Ltd., Kobe	51	•	•		
Ciba Specialty Chemicals K.K., Takarazuka/Tokyo	100	•		•	
Musashino-Geigy Co. Ltd., Tokyo ⁽³⁾	60	•	•		
Nippon Alkyl Phenol Co. Ltd., Tokyo ⁽⁴⁾	46	•	•		
Republic of Korea (South Korea)					
Ciba Specialty Chemicals Korea Ltd., Seoul	100	•			
Daihan Swiss Chemical Corp., Seoul	50	•	•	•	
Doobon Fine Chemical Co., Ltd.	63	•			
Malaysia					
Ciba Specialty Chemicals (Malaysia) SDN. BHD., Klang	70	•	•		
Singapore					
Ciba Specialty Chemicals (Singapore) Pte Ltd., Singapore	100	•	•		
Taiwan					
Ciba Specialty Chemicals (Taiwan) Ltd., Kaohsiung	100	•	•		
Thailand					
Ciba Specialty Chemicals (Thailand) Ltd., Bangkok	100	•	•		
Ciba Specialty Chemicals Industries Ltd., Bangkok	95	•	•		
Africa					
South Africa					
Ciba Specialty Chemicals (Pty) Ltd., Spartan	100	•			
Australia and New Zealand					
Australia					
Ciba Specialty Chemicals Pty. Ltd., Thomastown	100	•	•		
New Zealand					
Ciba Specialty Chemicals N.Z. Ltd., Auckland	100	•	•		

⁽¹⁾ The shares of Ciba Specialty Chemicals Holding Inc. are listed on the Swiss Exchange and since August 2, 2000, the Company's American Depository Shares ("ADSs") are listed on the New York Stock Exchange. Two ADSs represent one share of the Company's common stock.

⁽²⁾ Company that will be sold in connection with the completion of the sale of the Performance Polymers business.

⁽³⁾ In January 2001, the Company acquired a controlling interest in Musashino-Geigy Co. Ltd., increasing its holdings from 50 percent to 60 percent in this joint venture with Musashino Chemical Laboratory Co. Ltd.

⁽⁴⁾ In January 2001, the Company increased its holdings in Nippon Alkyl Phenol Co. Ltd., from 45 percent to 46 percent.

Ciba Specialty Chemicals Holding Inc. Financial Statements

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

Statement of income	2000	1999
Financial income	188	190
Extraordinary income	55	0
Total income	243	190
Administrative expenses	8	8
Financial expenses	36	36
Taxes	20	5
Extraordinary expenses	30	0
Total expenses	94	49
Profit for the year	149	141

Balance sheet	December 31, 2000	December 31, 1999
Assets		
Cash and cash equivalents	323	1
Short-term investments	124	112
Accounts receivable:		
Subsidiaries	484	630
Third parties	8	32
Total current assets	939	775
Financial investments	2 201	2 594
Total long-term assets	2 201	2 594
Total assets	3 140	3 369

Liabilities and shareholders' equity

Liabilities:		
Subsidiaries	204	17
Third parties	51	21
Credit institutions	0	474
Bonds	300	300
Accrued liabilities	138	126
Total liabilities	693	938

Common stock	721	721
Legal reserves:		
General reserve	1 121	1 161
Treasury stock reserve	399	359
Retained earnings brought forward	206	190
Total shareholders' equity	2 447	2 431
Total liabilities and shareholders' equity	3 140	3 369

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 requirements 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. Short-term investments

Short-term investments include treasury stock at a book value of CHF 95 million (1999: CHF 95 million; see also Note 6).

3. Contingencies

	2000	1999
Guarantees for capital and interests for "Industrial Revenue Bonds"	412	390
Guarantees for the benefit of subsidiaries	83	117
Guarantees for bonds and notes for the benefit of subsidiaries	5 538	6 412
Total as per December 31,	6 033	6 919

4. Bonds

In 1999, the Company issued a CHF 300 million straight bond with an interest rate of 3.25 percent. 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 subsidiaries of CHF 692 million (1999: CHF 1 075 million). The major direct and indirect investment in subsidiaries and joint ventures of Ciba Specialty Chemicals Holding Inc. are listed in this report in the section "Major Consolidated Subsidiaries and Associated Companies".

6. Treasury stock (number)

	2000	1999
Treasury stock on January 1,	5 675 119	5 676 798
Purchased at market prices	391 177	0
Sale at market prices	(4 862)	(1 679)
Treasury stock on December 31,	6 061 434	5 675 119

7. Common stock

The General Meetings of the Shareholders on April 20, 1998 and on April 13, 2000 passed the following resolutions:

Authorised increase of common stock

Until April 13, 2002 the Board of Directors is allowed to issue a maximum of 4 million fully paid in registered shares at a par value of CHF 10 per share. This results in an increase of the common stock by CHF 40 million at maximum.

Conditional increase of common stock

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

The Company's common stock is increased by issuance of a maximum of 2 million fully paid in registered shares at a par value of CHF 10 per share. This increase of the common stock 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

	2000	1999
According to our knowledge the following shareholders hold more than 2% of the common stock:		
Banque Paribas (Suisse) SA, Geneva	2.2%	2.2%
Hanover Nominees Ltd., London	2.2%	
Euroclear Nominees Ltd., Bruxelles (all registered as nominees)	2.1%	
These shareholders may use their voting rights up to 2% of the common stock.		

Proposed appropriation of retained earnings brought forward

	2000	1999
Profit carryforward	57	49
Profit for the year	149	141
Total retained earnings brought forward	206	190
Distribution of a gross dividend of CHF 2.00 (1999: CHF 2.00) on 66 068 683 registered shares (1999: 66 454 998 registered shares) at a par value of CHF 10 per share (excluding treasury stock)	132	133
Balance carried forward	74	57

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 (statement of income, balance sheet, notes and proposed appropriation of retained earnings brought forward, see page 42 to 43) of Ciba Specialty Chemicals Holding Inc., for the year ended December 31, 2000.

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 Swiss 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 brought forward comply with the Swiss 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 19, 2001

Accumulated Other Comprehensive Income is a component of shareholders' equity and is the sum of the cumulative currency translation adjustment and the cumulative unrealized gains and losses on available-for-sale securities at the balance sheet date.

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 percent 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 Flows from Operating Activities is the net cash provided from the principal revenue-producing activities of the business. It excludes financing and investing activities as well as restructuring payments.

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.

Comprehensive Income is the change in equity of the Company during the year from transaction and other events, other than dividends paid, treasury stock and common stock transactions. It includes net income for the year, the current year's currency translation adjustment and the current year's unrealized gains and losses on available-for-sale securities, net of tax.

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. Financial instruments currently used by the Company are forward exchange contracts, options and interest and currency swaps. The Company uses these instruments to reduce 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.

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

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

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

Economic Profit (Loss) 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 adjusted for net cash from investing activities less dividends paid. The Company uses free cash flows for reinvestment in the business and for repayment of debt.

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 accounts payable 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, except the current portion of deferred tax liabilities) less deferred tax assets.

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.

Net Debt is the sum of short-term debt and long-term debt less cash and cash equivalents and short-term investments.

Net Sales Growth percentage is the change in the current period's net sales in Swiss francs over the previous period's sales in Swiss francs expressed as a percentage.

Net Sales Growth percentage, in Local Currencies is the change in the current period's net sales in local currencies over the previous period's net sales in local currencies expressed as a percentage.

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

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.

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

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' 2000 Annual Report
consists of the Business Review and Financial Review.

The documents are published in both English
and German.

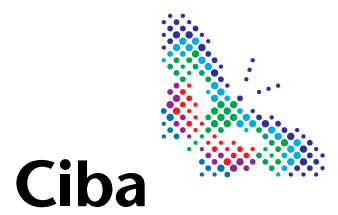
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other materials.

The 2000 Annual Report was developed and
written by Corporate Communications and
Corporate Finance, Ciba Specialty Chemicals.
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Designed and produced by Browns/London.
Typeset by ehsrealtime.
Printed in Switzerland by Birkhäuser + GBC Ltd.

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Value beyond chemistry