Half-year report 2001

Ciba Specialty Chemicals delivers solid first half 2001 results

– Net income increases by 3 percent in Swiss francs
– Sales in local currencies 1 percent below record first half 2000
– Simplified structure increases efficiency – further cost reductions initiated
– Outlook 2001: net income expected to be above previous year
– Mid-term targets and strategy defined

Financial Highlights (unaudited)

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

Six months ended June 30	2001	2000 (1)	Change in %
Net sales	**3 856**	4 005	–1*/–4
Operating income	**425**	464	–2*/–8
Income from continuing operations	**220**	215	2
Cumulative effects of change in accounting principles, net of tax (2)	**2**	0	
Net income	**222**	215	17*/3
Earnings per share, basic and diluted	**3.37**	3.24	
EBITDA (3)	**659**	695	0*/–5

* Percentage change in local currencies.
(1) On May 31, 2000, the Company completed the sale of its Performance Polymers business to Morgan Grenfell Private Equity. The amounts reported in 2000 for net sales, operating income and EBITDA are from continuing operations. Net income from discontinued operations, net of taxes, for the first half of 2000 was zero.
(2) On January 1, 2001, the Company adopted Financial Accounting Standards Board (FASB) Statements 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 Hedging Activities, an amendment of FASB Statement No. 133" which replaced existing pronouncements and practices with a single, integrated accounting framework for derivatives and hedging activities.
(3) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income plus depreciation and amortization.

Dear Shareholders,

I am pleased to report increased net income and an increase in earnings per share following a difficult business environment in the first half of 2001.

For the first time today, we are releasing our results by Segments. The simplified organization that we announced in February in our "Fit for Growth!" program is now in place. With these adaptations, we took early actions to get closer to our customers and to increase our efficiency by streamlining and simplifying our processes.

The first half of 2001 saw weak markets in the specialty chemicals industry, amidst a general slowdown in the global economy, particularly in NAFTA, Japan and several other regions. Europe began the second quarter in a healthy condition, but slowed noticeably toward the end of the quarter. In addition, we faced overall less favorable currency rates, despite a stronger U.S. dollar; we are comparing ourselves to the peak sales level achieved during the first half of 2000, when the Company set its all-time sales record during a generally positive business climate; and, let's not forget that our first half 2001 performance was accomplished while we were rapidly introducing our new business structure.

I would like to thank our employees because in spite of these circumstances, we were able to achieve a solid EBITDA margin (1) of 17.1 percent. Sales in local currencies almost matched last year's peak, being down 1 percent in the first half of this year as compared to last year. Volumes did reach last year's high levels and price reductions abated further. Overhead expenses were reduced, however we maintained our high degree of investment in research and development. Net interest expenses declined 42 percent reflecting a further positive development in debt levels. As a result, net income was up 17 percent in local currencies and earnings per share totaled CHF 3.37. Overall, we delivered a solid performance in a difficult environment.

"Fit for Growth!"

Five, strong business Segments are now in place and concentrating with increased focus on the customers in their specific industries, with the aim of going beyond the offer of products, to providing innovative and totally integrated solutions. Our overriding goal at Ciba Specialty Chemicals is profitable growth. As is good business practice, we are constantly looking for efficiency improvements. Therefore, we are currently implementing several rationalization projects, as originally announced in February, which will be

(1) EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization; EBITDA margin means EBITDA divided by sales.

fully completed in about 12 to 18 months: combining three separate global supply chains into one coordinated system for all of our Segments, which also involves a renegotiation of associated contracts for the supply of services and materials, and a rationalization of the IT support structure, including reduced reliance on outsourcing services. In addition, the Water & Paper Treatment Segment will face a reduction in its overall headcount as part of its strategy to make operations more efficient, improve profitability and then grow the business. The Company expects the overall effect of these efforts, in combination with an ongoing streamlining of the simplified organization, to result in an impact on up to 450 positions by the end of 2002. By the end of July 2001, an additional 150 positions had already been reduced. The Company will strive to reduce the positions wherever possible through the normal fluctuations in staffing. The Company anticipates annual cost savings of CHF 70 million once all of these measures are in place.

Looking Forward

The Company's targets for 2001, as issued at the start of the year, were for sales above market growth (which was estimated, at that time, to be around 2 percent) and profitability defined as an EBITDA margin of 17.1 percent to 17.6 percent of sales. They were predicated on a moderately softer macro economic environment throughout 2001, with a pick up in the second half of 2001. Based on the macro economic developments in the second quarter of this year, the Company believes it is clear that not only will the market not grow by 2 percent this year, rather a market contraction has to be expected for the full year given the weak end-user markets.

Against this backdrop, the Company's target for 2001 is to outperform the general market and by that the sales target for the full year is to achieve about the same level of sales, in local currencies, as achieved in 2000. The Company believes its profitability will most likely be around the lower end of the full-year target range. Net income and earnings per share should be above the previous year's result. These assumptions are based on no further, unexpected deterioration in macro economic environment conditions during the second half of 2001, as well as a currency exchange rate scenario that is reasonable.

As promised, we are today releasing our new mid-term Company financial targets. They include: first, an average annual sales growth of 6 percent, in the years 2002 through 2005; second, to improve profitability by 2005, as measured by EBITDA margin, to 20 percent of sales; and third, to generate a strong annual free cash flow in 2005 of greater than 1 billion Swiss francs. These are ambitious targets, even in a more positive economic environment, yet I am confident we will reach them with our new, more efficient structure, with Ciba's dedicated and motivated workforce and with a return to more positive economic and market conditions.

Our Strategy

Ciba Specialty Chemicals has now aligned itself more closely with its customer industries by forming five strong business Segments. We strive for leading positions in all of our activities. Our Segments have the critical size for market leadership. We have a balanced geographical presence and outstanding products. We will exploit our vast internal know-how, coupled with our leading products, to provide fully integrated customer solutions. We want to grow organically with our research expertise and, where it makes more sense, invest in the necessary mid- and small-sized acquisitions to complement our products and technology to enhance our growth. Since products are the backbone of our customer offering, we have introduced a Chief Technology Officer at the Executive Committee level and we have formed the Research and Technology Board, which includes all of our Segments. R&T board members are systematically finding creative ways to leverage our existing core technical competencies and identifying new fields to explore, in order to drive growth in the future. We introduced a number of new products during the first half – new biocides and flame retardants for the plastics industry, improved high performance pigments for the coatings markets and novel new effects for hair conditioners in the personal care industry, just to name a few. There are more to come by the end of the year.

Ciba Specialty Chemicals is pursuing a strategy of managing its extensive portfolio with three separate business models to accommodate its broad and interconnected customer base. **Specialty products**, which comprise approximately two-thirds of our portfolio, offer a wide range of growth opportunities, are protected either by patents or proprietary technical knowledge, add considerable value to our customers through differentiation and tie us closely to our customers. **Semi-specialties** represent about one-third of our portfolio. They provide growth opportunities in attractive niche markets while offering somewhat lower differentiation. Key to managing these products is operational excellence – consistent high quality and supply performance. Our third model is for the emerging area of comprehensive customer **"services"**, whereby we leverage and market our unique competencies, expertise, advice and consulting talents to our customers. This offers strong revenue growth potential, although from a lower base.

We have also identified specific strategies for each of our five Segments, which continue to have the same overall mission: to provide the best and most value-adding products and services to their respective customer industries.

Plastic Additives: *Leveraging industry leadership*

The Plastic Additives Segment will continue to leverage its strong position in the polymer additives market through innovation and marketing alliances to provide new effects, integrated customized solutions and one-stop shopping to the plastics industry. Growth is supported by operational excellence – in particular, lowest-cost manufacturing. Innovation supports differentiation in the traditional stabilizer business and provides technology platforms for new areas such as surface modifiers and flame retardants. In the lubricant additives field, meeting the ever-increasing trend toward higher engine performance with environmentally friendly products provides substantial growth opportunities.

Coating Effects: *Expansion through innovative technology*

The goal for the Coating Effects Segment is to stimulate growth by increasing the percentage of new products. It will build upon and extend its leading positions in high performance pigments, photoinitiators and UV absorbers in its various coatings markets by launching innovative new

product ranges to bring improved value to its customers. Research and development is a key driver for entering new markets, particularly in the fast-paced world of electronic materials.

Water & Paper Treatment *Provider of choice in Water & Paper Treatment*
Water & Paper Treatment has the task to complete the turnaround and establish a growth platform. To do this, the Segment has to rationalize its total cost base, drive productivity and efficiency in its manufacturing base, and align all processes in terms of Business Process Excellence. Simultaneously, the water treatment group will focus on driving geographic expansion into Asia and South America. The paper group will grow from its strong base in whiteners, colors, specialty effects, and retention aids while filling the necessary gaps in its range of functional chemicals to offer a total package solution to customers.

Textile Effects: *The provider of Integrated Textile Solutions*
The Textile Effects Segment will focus on growing its high quality line of products and services while at the same time continuing its considerable efforts in managing production at a low cost. It will combine its unparalleled experience in textile dyes, its full range of chemicals for the pretreatment, dyeing, printing and finishing of textiles and its expertise and related services for both natural and synthetic fabrics and garments to offer total customer solutions for all major fibers, everywhere along the whole textile value chain.

Home & Personal Care: *Technology opportunities building a bright future*
The Home & Personal Care Segment aims to gain fast access to new markets with novel products and solutions by building on its technological strengths and customer relationships in the fields of whiteners for laundry detergents and hygiene effects. It will seek to match the kind of success achieved with the very fast market acceptance of its line of UV protectors in sunscreens and laundry detergents by pursuing lucrative growth fields in the personal care market, including skin creams, hair dyes and conditioners. The Segment's marketing strategies will be tailored to the specific needs of its customers who are marketing directly to the end consumer. Complementary opportunities for other Segments (for example, those serving the packaging industry) may result.

Our Vision
A critical consideration for any company is determining what it stands for. What is it trying to achieve? This is important for employees, shareholders and customers alike. As Ciba Specialty Chemicals continues to build a brighter future, the time is appropriate to introduce our new Vision: *We create effects to improve the quality of life.* At Ciba, we are working to improve the quality of life. We add performance, protection, color and strength in automobiles, clothing, packaging, home and personal care products and many more. We enable beneficial features that make everyday products better and breakthrough products possible.

We are as well introducing a new Mission Statement, which can be found on the Ciba Specialty Chemicals internet website (www.cibasc.com). I hope you will agree with me that this new culture, coupled with our newly streamlined organization and our clear strategic approach, provides a very solid basis for profitable growth in the future.

Sincerely,

Armin Meyer
Chairman of the Board and Chief Executive Officer

Overview

Ciba Specialty Chemicals increased its net income and earnings per share, compared to the same period last year, and achieved a solid 17.1 percent EBITDA margin [1] during the first half of 2001, despite less favorable currency rates and a slowdown in the global economy.

Sales in several regions and end-markets were weak, especially as compared to the very strong performance during the first half of 2000, when the Company recorded the highest sales total in its history. This trend was most notable in the NAFTA region, particularly in the automotive, paper and electronics markets. Toward the end of the second quarter, Europe began to show some areas of weakness as well, particularly in Germany.

Sales in the first half of 2001 were 1 percent lower in local currencies than during the first half of 2000. Even though the U.S. dollar strengthened against the Swiss franc in the first half of 2001, compared to the same period last year, a number of other currencies were considerably weaker – including the Euro, the British pound and the Japanese yen – leading to sales of CHF 3.856 billion, 4 percent lower in Swiss francs.

Volumes in the first half of 2001 reached the same high level as achieved during the first half of 2000. At the same time, price reductions abated further.

Operating income and EBITDA were affected both by currency rates and the effect of streamlining the portfolio through the divestment of equity-consolidated investments.

Net financial expense was down significantly, reflecting strongly lower debt as a result of the divestment program.

Net income rose 17 percent in local currencies, respectively by 3 percent in Swiss francs, to CHF 222 million. Earnings per share totaled CHF 3.37.

In February, the Company introduced the “Fit for Growth!” program, featuring an alignment of business operational activities along customer industries. This new structure brings the Company’s businesses closer to its customers and allows a greater focus on providing not just products, but total integrated solutions. We have already put into place the five new business Segments, a Chief Technology Officer at the Executive Committee level and a new, cross-Segment Research and Technology Board, which was formed to leverage the Company’s existing technological core competencies and identify new technology platforms for future growth, opening new applications and markets. The new structure has already created innovative business opportunities across the Segments and the Company is confident of its ability to drive profitable growth in the future as a result of the changes.

The “Fit for Growth!” program was also designed to speed up decision-making by eliminating the former divisional layer, as well as to improve efficiency by harmonizing several support areas. Chief among these efficiency projects is a 12 to 18 month effort to rationalize the existing three supply chains into one coordinated, global supply chain system. This will include the renegotiation of a number of associated contracts for the supply of services and materials. A rationalization of the IT support structure is also underway, including reduced reliance on outsourcing services. In addition, the Water & Paper Treatment Segment will face a reduction in its overall headcount as part of its strategy to streamline operations, improve profitability and then grow the business. The Company expects the overall effect of these efforts, in combination with an ongoing streamlining of the simplified organization, to result in an impact on up to 450 positions by the end of 2002. By the end of July 2001, an additional 150 positions had already been reduced. The Company will strive to reduce the positions wherever possible through the normal fluctuations in staffing. The Company anticipates annual cost savings of CHF 70 million once all of these measures are in place.

[1] EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization; EBITDA margin means EBITDA divided by sales.

Detailed Half-Year Results

Sales

Sales for the first half of 2001 totaled CHF 3.856 billion. That was 1 percent lower in local currencies compared to the first half of 2000. Sales were 4 percent lower in Swiss francs.

Volumes in the first half of 2001 were maintained at the same high levels reached during the first half of 2000. Price reductions continued to abate, with overall prices down just 1 percent during the first half of 2001. From the first quarter of 2001 to the second quarter, the Company saw further improvements in prices while volumes declined slightly.

On a regional basis, sales in Europe in the first half of 2001 were 1 percent higher in local currencies and 3 percent lower in Swiss francs when compared to 2000. Starting in late May, a softening trend appeared to begin in several European countries, most notably in Germany and, to a lesser degree, in France.

In the Americas Region (NAFTA and South America), sales fell 5 percent in Swiss francs and 6 percent in local currencies. Sales increases in South America were quite strong. However, sales in NAFTA, in line with the generally softer situation in the U.S., were weak on a comparable basis throughout the first half of 2001. While sales were lower, they also appear to have stabilized at this lower level.

In the Asia-Pacific Region, sales were 1 percent higher in local currencies and 3 percent lower in Swiss francs. Sales in China, South Korea and many countries in South and Southeast Asia were higher throughout the first half of 2001. Japan and Taiwan were weak when compared to 2000.

The Company maintains a strong geographical sales balance that allows it to mitigate weaknesses around the world: 38 percent of sales were in Europe, 36 percent in the Americas Region, and 26 percent in the Asia-Pacific Region.

Operating Income

Operating income reached CHF 425 million in the first half of 2001 (11.0 percent of sales), as compared to CHF 464 million in the first half of 2000 (11.6 percent). Operating income for the first half of 2001, compared to the first half of 2000, was influenced by three key factors. The first was currency rates. Three-quarters of the reduction in operating income (–CHF 30 million) were directly attributable to less favorable currency rates. The other two factors were the effect of divesting certain equity affiliates, which reduced operating income (–CHF 22 million) but benefited financial expenses, and a slight underlying positive development in the business Segments (+CHF 13 million).

Income from equity affiliates during the first half of 2001 declined by CHF 22 million due to the streamlining of the portfolio by the divestment of a series of equity participations during the year 2000. A positive impact of these divestments is seen in lower interest expenses and a lower level of debt.

The improvement in the underlying business performance was based on proactive measures taken to prepare for the weaker business environment. Selling, general and administrative expenses were 10 percent, or CHF 75 million, lower. Further improvements were also made in overall process optimization. Offsetting these lower operational costs were slightly higher raw material and utilities costs (particularly raw materials for the Water & Paper Treatment Segment) and some

idle capacity costs. Investments in research and development were maintained at last year's high levels in Swiss francs.

Interest Expenses
Net interest expenses decreased 42 percent thanks to a strong reduction in net debt in 2000. Interest cover (expressed as operating income divided by net interest expense) increased strongly from 3.9 in the first half of 2000 to 6.3 this year.

Net Income
Due to reduced financial expenses during the first half of 2001, net income increased by 17 percent in local currencies (3 percent in Swiss francs) to total CHF 222 million. Earnings per share reached CHF 3.37.

Balance Sheet
Despite active measures to curb both inventories and receivables, the Company noted a moderate increase in both categories among most Segments and in most countries compared to the first half of 2000. This confirms the effect of the generally weaker business climate as reported around the world.

Net debt increased by CHF 255 million compared to year-end 2000, primarily due to the effect of currency rates and acquisition and divestment activity.

Cash Flow
Free cash flow, prior to acquisitions and divestments, was flat (–CHF 3 million) in the first half of 2001, compared to +CHF 107 million in the previous year, due in large part to higher investments in net current assets (primarily receivables). Second half cash flows tend to be stronger than first half cash flows, primarily due to scheduled dividend payments in the first half of the year and a traditional easing of current assets during the second half of the year.

A total of CHF 109 million was spent (net) on acquisitions and divestments mainly covering the acquisition of Efka Additives, the sale of Together for Leather and ongoing separation costs for the former Performance Polymers division.

Cash fell by CHF 77 million, between the end of the full year 2000 and the end of the first half of 2001.

Segment Results

Plastic Additives
The Plastic Additives business outperformed the market both in sales and profitability in spite of weak market conditions in key global markets. The Segment achieved the same high sales in local currencies as during the first half of 2000. Sales in Swiss francs totaled CHF 969 million, 2 percent lower than last year. The effect of recent selective price increases has been positive with price declines in the first half of 2001 totaling less than 1 percent of the previous year's period. Volumes rose by 2 percent. Good sales increases were achieved in Asia, South America, and Western Europe. Sales were weak in NAFTA and Japan.

Segment profitability improved in the first half of 2001 due primarily to an increase in productivity. EBITDA reached CHF 230 million, compared to the previous year, resulting in an EBITDA margin of 23.7 percent as compared to 23.1 percent in 2000.

The underlying trends in the plastics market continue, including substitution of traditional materials by plastic and greater demand in developing countries. This is expected to continue to result in volumes outpacing GDP [(2)] over the mid-term. The Segment announced a number of new product introductions and marketing alliances during the first half of 2001 involving new and enhanced effects for the plastics industry.

Coating Effects
In 2001, the very weak conditions in the U.S. automotive, microelectronics and print advertising markets hindered the ability of Coating Effects to reach last year's exceptionally strong sales. The Segment recorded sales of CHF 1.018 billion for the first half of 2001, 7 percent lower in Swiss francs and 4 percent lower in local currencies. Volumes fell 2 percent and weaker market conditions and competitive pressures led to price declines of 2.5 percent. Sales were particularly weak in NAFTA for automotive coatings. Parts of Europe have shown a slowdown towards the end of the second quarter. Higher sales were achieved in South America and parts of Asia.

In the first half of 2001, EBITDA totaled CHF 209 million, 13 percent below the previous year's total. The EBITDA margin was 20.6 percent compared to 22.0 percent during the comparable period in 2000. Aside from lower sales, the key reason for the decrease was reduced production levels, mainly at the Company's Newport facility in the U.S.

The environment for the Segment's customer industries for the second half of 2001 is expected to remain difficult, however a slight improvement in sales performance is expected compared to the second half of 2000. Furthermore, the Segment has already introduced, or is scheduled to introduce in the second half of this year, new products that bring advances in the fields of high performance pigments and UV absorbers.

Water & Paper Treatment
Sales in the Water & Paper Treatment Segment rose 1 percent in local currencies, compared to the first half of 2000, but fell 2 percent in Swiss francs to total CHF 754 million. On a year-over-year basis, volumes and prices held steady; however, as expected, volumes weakened considerably toward the end of the second quarter of 2001 due to lower demand in the U.S. and Asian paper markets and the mining sector. Geographic sales performance was mixed.

As expected, the reduced profitability experienced in the first quarter of 2001 continued into the second quarter. EBITDA for the first half of 2001 totaled CHF 67 million, or 8.9 percent of sales, down from 12.3 percent in the first half of 2000. Key factors influencing the results were: the strength of the British pound and the U.S. dollar which made exporting from the U.K. and the U.S. more difficult, the continuing high raw material prices in the first half of 2001 (primarily for acrylonitrile) and idle capacity costs.

The outlook for the Segment's particular end markets is heavily dependent on trends in the overall global economy. In the current climate, it is difficult to predict when these markets or the general macro economic trends will move higher in different parts of the world. Currently, there is little or no growth in the global paper markets, with some exceptions. Consolidation and competition continues in the pollution control sector. The extraction industries continue to be affected by generally slower GDP development and by the U.S. energy crisis. In the second half of 2001, the Segment expects raw material costs to begin to decline from their current peak. In addition, the Segment's efforts to streamline operations will continue and will yield positive results in 2002. The Segment continues to see growth in its Unique Molecular Architecture® line of products and the new barrier and sizing products for the fast food and pet food packaging industries are enjoying exceptionally strong market acceptance.

(2) GDP means Gross Domestic Product

Textile Effects

The Textile Effects Segment saw lower sales but substantially higher profitability during the first half of 2001, as compared to year-ago levels. The Segment enjoyed high sales in the first half of 2000, however a global slowdown in the textile industry since that time prevented the Segment from matching last year's totals. Sales were CHF 902 million, 5 percent lower in Swiss francs and 3 percent lower in local currencies. The Segment saw 2 percent lower volumes during the first half of 2001 as compared to the first half of 2000. Prices, on average, were 1 percent lower during the first half of 2001. The shift in production away from Western nations toward Asia led to predictably similar geographic sales results. Sales were strong in the important textile markets of Pakistan, India, Bangladesh, Sri Lanka and many parts of Southeast Asia.

There was a strong improvement in profitability, with EBITDA reaching CHF 149 million, 16 percent higher than the first half of 2000. The EBITDA margin improved from 13.6 percent to 16.5 percent. Key to this performance was a tight control of product margins due, in large part, to the change in sourcing arrangements made last year which is now providing a strong benefit. In addition, prices were stable and the Segment made further productivity improvements in both its production facilities and supply chain.

Volume sales to the global end-markets remain very dependent on general economic growth worldwide. There have been some signs of stabilization in key end markets, such as cotton, synthetics and wool. Market acceptance has been strong for both the Segment's IRGAPHOR® SPD soft pigment dyes and its new Smile Green process for achieving the currently fashionable brilliant green and turquoise shades in the number one selling textile fiber of cotton.

Home & Personal Care

In a stable market environment, the Home & Personal Care Segment increased sales and profitability in the first half of 2001 versus the comparable period in 2000. Sales increased by 6 percent in local currencies. Sales totaled CHF 213 million, an increase of 4 percent in Swiss francs. Supported by the positive reception to new product introductions and improved sales to the laundry detergent industry, volume rose by 8 percent during the first half of 2001, while prices declined 2 percent. Sales were strong in many parts of Asia (particularly Southeast Asia) and South America. Several parts of Europe and the NAFTA market saw increased sales as well.

Stronger volumes led to increased capacity utilization during the first half of 2001. The Segment also maintained a stable cost base. As a consequence, profitability rose 16 percent, as EBITDA reached CHF 39 million. The EBITDA margin increased from 16.4 percent to 18.3 percent.

Market conditions appear favorable over the mid-term, with growth potential above GDP rates expected for the next years. Market interest has been particularly strong for the new TINOSORB® line of UV absorbers, used to protect against harmful radiation in sunscreens and laundry detergents. These products grew at double-digit rates during the first half of 2001. Growth continues as well with a number of innovative new products in the cosmetics area of Personal Care.

Outlook

The Company's targets for 2001, as issued at the start of the year, were for sales above market growth (which was estimated, at that time, to be around 2 percent) and profitability defined as an EBITDA margin of 17.1 percent to 17.6 percent of sales. They were predicated on a moderately softer macro economic environment throughout 2001, with a pick up in the second half of 2001. Based on the macro economic developments in the second quarter of this year, the Company believes it is clear that not only will the market not grow by 2 percent this year, rather a market contraction has to be expected for the full year given the weak end-user markets.

Against this backdrop, the Company's target for 2001 is to outperform the general market and by that the sales target for the full year is to achieve about the same level of sales, in local currencies, as achieved in 2000. The Company believes its profitability will most likely be around the lower end of the full-year target range. Net income and earnings per share should be above the previous year's result. These assumptions are based on no further, unexpected deterioration in macro economic environment conditions during the second half of 2001, as well as a currency exchange rate scenario that is reasonable.

Forward-Looking Statements

Forward-looking statements and information contained herein 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 (unaudited)

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

Six months ended June 30,	Notes	2001	2000
Net sales		**3 856**	4 005
Cost of goods sold		**2 601**	2 649
Gross profit		**1 255**	1 356
Selling, general and administrative		**665**	740
Research and development		**134**	142
Amortization of goodwill		**41**	42
Income from earnings of equity affiliates		**(10)**	(32)
Operating income		**425**	464
Interest expense		**(106)**	(136)
Interest income		**38**	18
Other financial expense, net		**(22)**	(22)
Minority interest		**(7)**	(4)
Income from continuing operations, before income taxes		**328**	320
Provision for income taxes		**108**	105
Income from continuing operations		**220**	215
Net income from discontinued operations, net of tax	2	**0**	0
Cumulative effects of change in accounting principles, net of tax	7	**2**	0
Net income		**222**	215
Per share data	6		
Basic and diluted earnings per share			
Continuing operations		**3.33**	3.24
Cumulative effects of changes in accounting principles		**0.04**	0.00
Net income per share		**3.37**	3.24
Weighted average shares outstanding, basic and diluted		**66 017 933**	66 389 659

See Notes to Condensed Consolidated Financial Statements

Consolidated Balance Sheets

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

	Notes	(unaudited) June 30 2001	December 31 2000
Assets			
Current assets			
Cash and cash equivalents		**1 102**	1 179
Short-term investments		**51**	68
Accounts receivable, net		**1 324**	1 188
Inventories	3	**1 839**	1 695
Prepaid and other current assets		**658**	667
Total current assets		**4 974**	4 797
Property, plant and equipment, net		**3 838**	3 787
Goodwill and other intangible assets, net		**2 294**	2 240
Financial investments		**256**	344
Other assets		**915**	937
Total assets		**12 277**	12 105

	Notes	(unaudited) June 30 2001	December 31 2000
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable		**537**	568
Short-term debt		**437**	371
Income taxes payable		**17**	32
Accruals and other current liabilities		**1 262**	1 431
Total current liabilities		**2 253**	2 402
Long-term debt		**3 954**	3 859
Deferred income taxes		**340**	317
Other liabilities		**1 751**	1 723
Minority interest		**96**	50
Total liabilities		**8 394**	8 351
Shareholders' equity			
Common stock (1)		**721**	721
Additional paid-in capital		**3 952**	3 955
Retained earnings		**(234)**	(324)
Accumulated other comprehensive income	5	**(75)**	(116)
Treasury stock, at cost (2)		**(481)**	(482)
Total shareholders' equity		**3 883**	3 754
Total liabilities and shareholders' equity		**12 277**	12 105

(1) Par value CHF 10 per share 82 130 117 shares authorized and 72 130 117 shares issued at June 30, 2001 and December 31, 2000.
(2) June 30, 2001: 6 121 490 treasury shares; December 31, 2000: 6 061 434 treasury shares.

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Cash Flows (unaudited)

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

Six months ended June 30,	**2001**	2000
Cash flows from continuing operating activities before restructuring payments [1]	**217**	352
Cash used for restructuring payments	**(13)**	(9)
Net cash provided by operating activities of discontinued operations	**0**	1
Net cash provided by operating activities	**204**	344
Cash flows used in investing activities, continuing operations [2][3]	**(75)**	(100)
Sale (acquisition) of businesses, net of cash [4]	**(109)**	1 392
Cash flows used in investing activities, discontinued operations	**0**	(4)
Net cash (used in) provided by investing activities	**(184)**	1 288
Cash used in financing activities [5]	**(100)**	(884)
Effect of exchange rate changes on cash and cash equivalents	**3**	(20)
Net (decrease) increase in cash and cash equivalents	**(77)**	728
Cash and cash equivalents, beginning of year	**1 179**	413
Cash and cash equivalents, end of June	**1 102**	1 141

(1) Depreciation and amortization during the first six months of 2001 amounted to CHF 234 million (first six months 2000: CHF 231 million).
(2) Investments in property, plant and equipment during the first six months of 2001 amounted to CHF 112 million (first six months 2000: CHF 96 million).
(3) Excludes sale (acquisition) of businesses, net of cash.
(4) Sale (acquisition) of businesses, net of cash, includes in 2001 and 2000 primarily the net proceeds from the sale of the Performance Polymers business. See Note 2.
(5) Includes cash dividends declared and paid (CHF 2.00 per share) in the six months ended June 30, 2001, of CHF 132 million, and in the six months ended June 30, 2000, of CHF 133 million.

See Notes to Condensed Consolidated Financial Statements

Condensed Business Segment Data (unaudited)

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

Six months ended June 30,	2001	2000
Net sales		
Plastic Additives	**969**	988
Coating Effects	**1 018**	1 094
Water and Paper Treatment	**754**	769
Textile Effects	**902**	948
Home and Personal Care	**213**	206
Total net sales	3 856	4 005
Operating income		
Plastic Additives	**165**	176
Coating Effects	**162**	189
Water and Paper Treatment	**31**	58
Textile Effects	**117**	93
Home and Personal Care	**24**	23
Corporate and other expenses	**(74)**	(75)
Total operating income	425	464
EBITDA(1)		
Plastic Additives	**230**	228
Coating Effects	**209**	241
Water and Paper Treatment	**67**	95
Textile Effects	**149**	129
Home and Personal Care	**39**	34
Corporate	**(35)**	(32)
Total EBITDA (1)	**659**	695

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

In the first half of 2001, the Company implemented a new organizational structure which created five new segments focused on specific customer markets. The five reporting segments are Plastic Additives, Coating Effects, Water and Paper Treatment, Textile Effects and Home and Personal Care. Amounts reported for the previous periods have been restated to conform to the 2001 presentation. The Company's reportable segments develop, manufacture and market different products, services and solutions. They are managed separately because each segment has different customer markets and requires different technology and marketing strategies. On May 31, 2000, the Company completed the sale of its Performance Polymers business and therefore excluded it from the segment data in 2000 (see Note 2). The same accounting policies are consistently applied across the Company. The Company evaluates the performance of its reportable segments based on operating income before restructuring and special charges, corporate related items, and certain other net expenses not allocated to reportable segments. All intersegment sales between subsidiaries are based on market price. As part of the new organizational structure, certain net costs that were previously reported as corporate related items have been attributed to the Segments.

The segment Plastic Additives develops, manufactures and markets products and provides services to the plastic and lubricant industries. The Segment's products are additives – ingredients added in small quantities to polymers and lubricants – that prevent aging and corrosion and help improve appearance, durability and performance of finished goods such as polyolefins and engineering plastics as well as high-performance motor oils and lubricants. The service business adds value to customers by providing solutions in product applications.

The segment Coating Effects serves primarily the coatings, printing, imaging, electronic and plastic industries. The end-user industries are, among others, the automotive, industrial and decorative paint industries, the electronic industry, all plastic-processing industries, and the packaging, publication and security printing ink industries. The Segment develops, manufactures and markets products and solutions such as pigments for inks, paints and plastics, optical information storage products for re-writable CDs as well as additives. The additives comprise, among others, photoinitiators for UV curing of coatings as well as anti-static, anti-corrosion and anti-aging agents for coatings and electronics and imaging applications.

The segment Water and Paper Treatment serves the paper and municipal and industrial waste-water treatment industries. The Segment offers products and services for paper production starting at the wet-end with anti-foaming and flocculation agents through the whole paper production process to the dry-end with paper finishings that determine appearance, handle and performance of the paper by making it water repellent, glossy or white. The Segment also offers products and services used to help clean industrial and municipal effluents and to improve the efficiency of mineral and oil processing.

The segment Textile Effects serves the textile industry, offering dyes and chemicals, services and integrated solutions to customers along the whole textile value chain. The Segment's products include dyes and chemicals for dyeing and printing of almost all textile fibers, optical brighteners and textile finishing product for protection and easy-care. Services offered by the Segment include color matching via the Internet and technical consultancy regarding textile color and effects management for international brand houses and retailers.

The segment Home and Personal Care develops, manufactures and markets products for home and personal care end-use industries. Among the Segment's broad product offerings are whiteners for detergents, antimicrobials for a variety of home and personal care products, UV absorbers for sun screens and innovative hair dyes.

See Notes to Condensed Consolidated Financial Statements

1. Basis of presentation

These condensed consolidated financial statements have been prepared from the unaudited records of Ciba Specialty Chemicals Holding Inc. and its subsidiaries (the "Company") in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and accordingly, do not include all information and footnotes required by U.S. GAAP for complete financial statements. For further information refer to the Notes to Consolidated Financial Statements included in the Financial Review of the 2000 Annual Report. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the consolidated statements of income, balance sheets and condensed cash flows for the interim periods presented.

2. Acquisitions and divestitures

Divestment of the Performance Polymers business

On May 31, 2000, the Company completed the sale of its Performance Polymers business to Morgan Grenfell Private Equity, the private equity arm of Deutsche Bank AG. The total gross proceeds from the sale of the Performance Polymers division to Morgan Grenfell Private Equity and Asian joint venture partners amounted to approximately CHF 1.6 billion, which includes the net debt assumed of approximately CHF 160 million.

In the first half of 2000, the Company had not recorded a gain or a loss on the sale of the Performance Polymers business even though the Performance Polymers business produced income from operations until its sale. In the second half of 2000, the Company concluded the closing balance sheet audit and its estimation of exit and separation costs, including transaction taxes, and recorded a gain, net of tax, on the sale of its discontinued operations of CHF 34 million.

Minor acquisitions and divestments

In June 2001, the Company completed the acquisition of Efka Additives B.V. in the Netherlands, a manufacturer of additives for the coatings and inks industries. The business acquired is being integrated into the segment Coating Effects. The acquisition was accounted for under the purchase method of accounting with the resulting goodwill and intangibles being amortized over 18 years.

In March 2001, the Company sold its 50 percent interest in TFL Ledertechnik GmbH & Co. KG. The net proceeds received approximated the carrying value of the investment at the date of sale.

In March 2000, the Company completed the purchase of Prochimica s.r.l., the Company's key photoinitiator supplier of its Coating Effects segment. The Company accounted for the acquisition under the purchase method of accounting with the resulting goodwill being amortized over 10 years.

3. Inventories

	(unaudited) June 30 2001	December 31 2000
Raw materials	**249**	214
Work in process and finished goods	**1 661**	1 554
Allowance for obsolete and slow moving inventory	**(71)**	(73)
Total	**1 839**	1 695

4. Restructuring

Prior Year Programs

The restructuring accrual at June 30, 2001 relates to the 2000 restructuring projects, announced in the second half of 2000. These programs comprised primarily the restructuring of certain operations of the Water and Paper Treatment segment 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 a Plastic Additives and Home and Personal Care manufacturing facility in the United States. Severance costs incurred in 2000 relate to the elimination of approximately 238 full-time equivalents ("FTEs") in the United States and Southern Europe, principally in the administration, sales and marketing functions and, in addition, the manufacturing functions in the United States. As of June 30, 2001, 66 FTEs have been terminated. The remaining terminations and costs related to these restructuring programs are expected to be substantially completed during 2001.

The restructuring accrual at June 30, 2000 related to the completion of the prior years restructuring programs. These prior year programs related to certain reorganizations of the Company's former divisional structures. Severance costs incurred from these prior year programs related to the elimination of approximately 450 FTEs in various locations of the Company's worldwide operations, principally in the administration, sales and marketing functions. As of June 30, 2000, 325 FTEs had been terminated. The remaining terminations and costs related to these prior year restructuring programs were completed by the end of the year 2000.

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

2001	**Severance costs**	**Other costs**	**Total**
Balance at January 1, 2001	**30**	**22**	**52**
Amounts utilized [1]	**(14)**	**(12)**	**(26)**
Balance at June 30, 2001	**16**	**10**	**26**

2000	Severance costs	Other costs	Total
Balance at January 1, 2000	35	9	44
Amounts utilized [1]	(10)	(5)	(15)
Balance at June 30, 2000	25	4	29

(1) Includes currency adjustments.

In management's opinion, the remaining restructuring provision is adequate to complete all of the restructuring programs.

5. Comprehensive income

The components of comprehensive income for the six month period ended June 30, 2001 and 2000 are as follows:

Six months ended June 30,	2001	2000
Net income	**222**	215
Currency translation adjustment	**28**	(122)
Unrealized gain on available-for-sale securities, net of tax	**13**	0
Realization of previously unrealized loss on available-for-sale securities, net of tax	**0**	1
Total comprehensive income	**263**	94

The after tax components of accumulated other comprehensive income as per the accompanying Consolidated Balance Sheets are as follows:

	(unaudited) June 30 2001	December 31 2000
Currency translation adjustment	**(88)**	(117)
Unrealized gains on available-for-sale securities, net of tax	**13**	0
Other	**0**	1
Accumulated other comprehensive income	**(75)**	(116)

6. Earnings per share

For the six months ended June 30, 2001 and 2000, basic and dilutive earnings per share were the same. This resulted as the calculation of diluted earnings per share excluded the assumed conversion of the 1.25 percent convertible bonds, issued July 1998, due July 2003, as their inclusion would have been antidilutive. In addition, the calculation of diluted earnings per share excluded all stock options outstanding, which have exercise prices between CHF 108 and CHF 183, as their exercise prices were greater than the average market price of the Company's shares for the six month period. The weighted average number of stock options outstanding at June 30, 2001 was 1 556 218 (June 30, 2000: 1 073 975).

7. Change in accounting policy and new accounting standards

Change in accounting policy – Derivative Financial Instruments

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 Hedging Activities an amendment of 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. The accounting for gains or losses from changes in the derivative's fair market value depends on whether it has been designated and qualifies as part of a hedging relationship, as well as, on the type of hedging relationship. Upon adoption of these statements, the Company recorded a net transition adjustment gain after taxes of CHF 2 million in net income. The adoption did not have any effect on accumulated other comprehensive income.

Derivative 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 risk management policies do not permit the utilization of financial instruments for speculative or trading purposes.

Foreign currency risk management

A substantial portion of the Company's cash flows are denominated in foreign currencies. To hedge the balance sheet and revenue exposures associated with diminution in value of foreign currency cash flows (principally U.S. dollars, Euros, British pounds, Australian dollars and Japanese yen), the Company primarily utilizes foreign exchange currency forwards, swaps and options contracts which generally expire within 12 months. In order to lower the overall hedging costs, the Company may issue derivatives on existing or future positions.

The Company enters into foreign exchange contracts to mitigate the gains and losses on foreign currency transactions that have been or are anticipated to be completed. Generally, the Company records these foreign exchange contracts at fair market value in the Consolidated Balance Sheet and the related gains or losses on these contracts are recognized as a component of "other financial expense, net" in the Consolidated Statements of Income. For specific anticipated transactions, the Company may defer the gains or losses on the foreign exchange contracts in accumulated other comprehensive income, if the transactions qualifies as an accounting hedge. Any ineffective portion of the contract is, however, immediately recognized as a component of "other financial expense, net" in the Consolidated Statements of Income. Deferred gains or losses are recognized in the income statement in the period when the hedged transaction occurs. For foreign exchange contracts, gains and losses are included as a component of "other financial expense, net" in the Consolidated Statements of Income.

Interest rate risk management

The Company from time-to-time enters into interest rate swaps and forward rate agreements to manage the fixed and floating interest rate mix of outstanding debt and related overall cost of the Company's borrowings. 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.

In instances where the interest rate swaps and forward rate agreements do not meet the requirements of an accounting hedge, the derivative is recorded in the balance sheet as either an asset or a liability at its fair market value. Gains or losses from changes in the derivative's fair market value are recorded as a component of financial income/expense in the Consolidated Statements of Income.

In instances where the interest rate swaps meet the requirements of an accounting hedge and where the Company has designated them as a hedge against the change in the fair market value of the Company's fixed-rate debt obligations, the change in the fair market value of the interest rate swap is recorded as a component of "interest expense" in the Consolidated Statement of Income. The fixed-rate debt hedged is valued at its fair market value and the change in the fair market value is recorded as a component of "interest expense" in the Consolidated Statements of Income.

New accounting standards
In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141 "Business Combinations". SFAS No. 141 requires that all business combinations completed after June 30, 2001, be accounted for under the purchase method of accounting. Use of the pooling-of-interests method (also known as the "uniting of interest method") is no longer permitted. The new standard requires the recording as a separate asset, apart from goodwill, all intangible assets that can be identified and named if the intangible asset meets the criteria as defined in SFAS No. 141. In addition, the disclosure requirements related to business combinations has been expanded to include, for material business combinations, the disclosure of the reason for the acquisition and the allocation of the purchase price paid to the assets and liabilities assumed by major balance sheet caption. The Company will adopt this new standard for all acquisitions completed after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed annually for impairment. Other identifiable intangibles will continue to be amortized to earnings over their estimated useful lives. The amortization of goodwill ceases upon the adoption of SFAS No. 142. The standard is required to be adopted as of July 1, 2001 for any goodwill acquired in an acquisition completed after June 30, 2001. For all other existing goodwill, the new standard is required to be adopted as of January 1, 2002. In addition, the disclosure requirements related to goodwill and intangible assets has been expanded to include information about changes in the carrying value of goodwill, the value of intangible assets by major type and the estimated intangible asset amortization expense for the next five years. The Company will fully adopt this statement as of January 1, 2002, and has not yet determined what, if any, impact the adoption of this new standard will have on the Company's net income or total shareholders' equity.

8. Contingencies

Contingencies
The Company operates in countries where political, economic, social and legal developments could have an impact on the operational activities. The effects of such risks on the Company's results, which arise during the normal course of business, are not foreseeable and are therefore not included in the accompanying condensed consolidated financial statements.

In the ordinary course of business, the Company is involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental and health and safety matters. 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.

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

The German tax authorities have completed the tax audit of the Company's operations in Grenzach, Germany for the period from 1989 to 1995, including the opening 1996 tax balance sheet of the Grenzach company as a result of the spin-off from Novartis. 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, the Company is of the opinion that the total liabilities owed are 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.

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 the ownership of the site or, if environmental liabilities do not relate to production sites or these are not owned by either entity, according to whose business the contamination allegedly relates. 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).

The Company continues to participate in environmental assessments and clean-ups at a number of locations, including federal and state superfund sites including operating facilities, previously owned facilities and other sites subject to clean up orders by governmental authorities. The Company accrues 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 ("U.S. EPA") in September 2000 on a Remedial Action Plan. The Company expects to enter into a formal consent decree with U.S. EPA this summer, and to begin the design work for the Remedial Action Plan, which will take several years to implement. It is expected to involve significant expenses over a period of several years.

The Company entered into a tolling and standstill agreement in 1998 with the members of 69 families, each of which had a child who had suffered from cancer. Attorneys for the families alleged that the cancer was caused in part by exposure to contamination from the Company's Toms River plant. Attorneys for the families and the Company have been engaged in informal (out-of-court) information exchanges and discussions since 1998.

In 2000 and early 2001, the Company was served with several complaints on behalf of approximately 600 adults seeking recovery from the Company for damages allegedly caused by their exposure from the 1950's through the mid-1980's to environmental contamination caused by the Toms River plant. Two of the complaints are class action complaints, seeking to establish a medical monitoring fund on behalf of people not currently ill but requesting enhanced medical monitoring because of their alleged exposure, and also damages for the decreased value of their property due to the alleged contamination. The Company is vigorously defending itself in these lawsuits.

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, Syngenta AG 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 eight to fourteen years to complete.

The contractual terms of the sale of the Performance Polymers business (see Note 2) 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-U.S. 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 and 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.

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Published in both English and German.
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Value beyond chemistry