



Ciba

LETTER TO SHAREHOLDERS

Full year results 2007

DEAR SHAREHOLDERS,
Ciba increased sales and improved profitability under very challenging business conditions in 2007. Our priorities for the year ahead are to focus on further efficiency improvement, decisive margin management and a new innovation approach.

LETTER TO SHAREHOLDERS



Armin Meyer



Brendan Cummins

2007 was undoubtedly a demanding year for Ciba – with raw material costs reaching unprecedented highs and unfavorable business conditions in some customer industries. But we also made substantial progress in a number of areas, building on our strong and focused business portfolio and delivering significant savings from the Operational Agenda, our program to improve efficiency and foster profitable growth. We increased our profits and made good progress with turning around our paper business, as well as launched some exciting innovative products and set up a number of new research collaborations.

STRATEGIC ACTION SHOWING RESULTS

The strategic actions we took to focus the portfolio, including the sale of the Textile Effects and Masterbatch businesses, are delivering results and have put us in a strong position for the future. Our core businesses, Plastic Additives, Coating Effects and Water & Paper Treatment are performing well, and the efficiency improvements we have made will continue to increase profitability.

FOCUS ON EFFICIENCY IMPROVEMENT

The Operational Agenda program launched in 2006 reached the half way point, with excellent progress being made across all initiatives. Our new SAP system is already up and running in around 80 percent of the Company, with the rest of the world following in 2008. A number of legal entities and production sites were closed to streamline our geographical footprint. As part of our Lean Manufacturing initiative we have already reduced production costs significantly and further actions are being implemented. In Marketing and Sales we introduced a new pricing model, ensuring more consistency and a stronger focus on profitability. Restructuring costs of CHF 118 million were incurred in 2007.

GOOD SALES AND INCREASED PROFITS

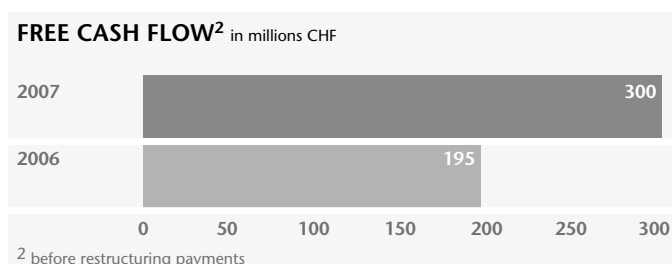
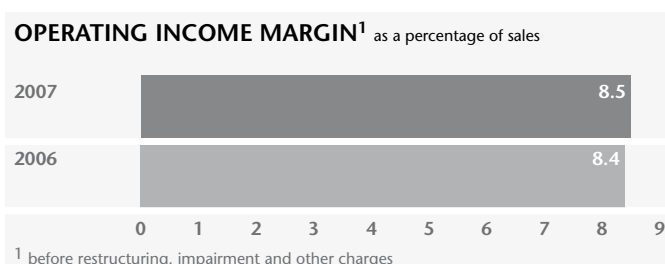
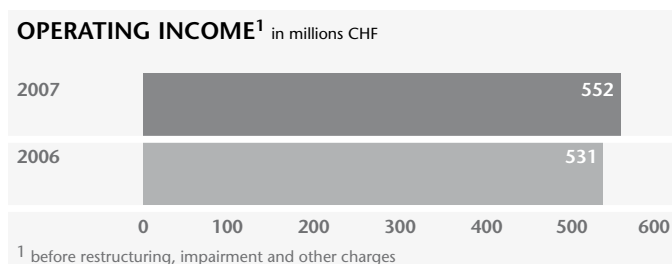
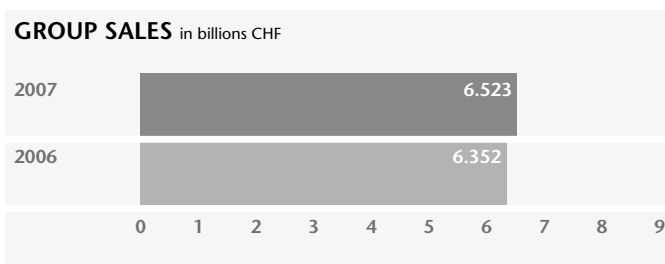
Overall we increased sales by 3 percent in Swiss francs and 2 percent in local currencies. This growth was mainly driven by Asia, with double digit rates in China. Europe and the Americas showed a mixed picture and overall were on a par with 2006.

The Operational Agenda already delivered substantial savings of more than CHF 95 million in 2007, higher than the

originally anticipated CHF 60-70 million. This was an essential contribution to improve our profitability despite higher raw material costs. We are well on track with the program, with improvements in cost structure of CHF 400-500 million expected by 2009. Before restructuring, we increased our operating income by 4 percent over 2006 and improved our operating income margin to 8.5 percent of sales. Profitability in Plastic Additives remained high, and actions taken in Water & Paper Treatment improved profitability quarter by quarter. Coating Effects withstood much of the impact of the slowdown in some of its customer industries, as well as exceptionally high raw material costs and temporary production shutdowns. Net income for the Group increased to CHF 237 million in 2007.

LEVERAGING INNOVATION POTENTIAL

Innovation is the key engine for future profitable growth and an important pillar of our Operational Agenda. Ciba invests CHF 260 to 270 million per year in Research & Development. Based on a comprehensive analysis of our technological capability, in 2007 we have developed a new focused approach to innovation. For the future, we



will strengthen our R&D efforts with a clearer focus on areas where we can significantly leverage our technological core competencies and see the highest growth and profit potential.

In 2008, we will consolidate our existing resources and introduce six cross-company research centers to focus on Ciba's core technologies: Protection and Stabilization, Color, Solid/Liquid Separation, Paper Strength and Coating, Interphase and Rheology and Polymerization and Curing Agents. These units will be complemented by competence centers for process innovation, industry-focused application, as well as regional technical centers. In addition, a New Growth Platform will be established to drive growth beyond Ciba's current core technologies and pursue high-potential emerging technologies.

FIGHTING CLIMATE CHANGE

Ciba has been taking action to fight climate change for many years. This year, we reduced our energy consumption by 6 percent relative to production. We have also set some stiff targets to be achieved by 2010: increase our sources of renewable energy and reduce levels of unused waste, each by 10 percent, as well as reach zero lost-time accidents.

OUTLOOK

The key priorities for 2008 are margin management and ensuring we achieve optimal value for our products. We will maintain our cost reduction efforts and continue a differentiated approach on prices and volumes, with selective price increases, but also volume growth strategies to gain market share where appropriate. We will withdraw unprofitable product ranges in order to improve margins. In addition, we will strengthen our sourcing capability, consolidate procurement activities company-wide and continue to optimize our working capital.

We are expecting 2008 to be another demanding year for the specialty chemicals sector, as the outlook for the economy is uncertain and raw material costs are expected to remain high. However, assuming no significant deterioration in business conditions, going forward we believe we will achieve sustainable annual sales growth in local currencies in line with global gross domestic product (GDP), as well as an increase in operating income of around 10 percent per year. For 2008, we expect an increase in free cash flow of around 20 percent and further significant improvements thereafter.

DIVIDEND OF CHF 2.50 PROPOSED

The Board of Directors has decided to propose a slightly reduced dividend of CHF 2.50 per share at the AGM on March 7, 2008, still providing an attractive yield for shareholders.

On behalf of the Board of Directors and the Executive Committee, we would like to thank our employees, customers and shareholders for their continued loyalty and support.



Armin Meyer
Chairman of the Board



Brendan Cummins
Chief Executive Officer

FINANCIAL HIGHLIGHTS

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

STATEMENTS OF INCOME

Year ended December 31,	Excluding restructuring ^(a) & one-time tax item ^(b)		Including restructuring & one-time tax item	
	2007	2006	2007	2006
Net sales	6 523	6 352	6 523	6 352
Gross profit	1 874	1 849	1 874	1 849
Restructuring, impairment and other charges ^(a)			(118)	(69)
Operating income (EBIT)	552	531	434	462
Financial income (expense), net	(125)	(161)	(125)	(161)
Income from continuing operations before income taxes and minority interest	427	370	309	301
Provision for income taxes	(111)	(61)	(84)	(39)
Minority interest	(5)	(3)	(5)	(3)
Income from continuing operations	311	306	220	259
Earnings per share from continuing operations ^(c)	4.62	4.62	3.27	3.91
Income (loss) from discontinued operations, net of tax ^(d)			17	(300)
Income (loss) per share from discontinued operations ^(c)			0.26	(4.54)
Net income (loss)			237	(41)
Net income (loss) per share ^(c)			3.53	(0.63)
Balance sheets				
December 31,			2007	2006
Current assets			3 340	3 554
Property, plant and equipment, net			2 426	2 576
Other long-term assets			3 022	2 951
Total assets			8 788	9 081
Current liabilities			1 972	1 566
Long-term liabilities			3 431	4 226
Minority interests			80	75
Shareholders' equity			3 305	3 214
Total liabilities and shareholders' equity			8 788	9 081
Net debt			1 913	1 854
Statements of cash flows				
Year ended December 31,			2007	2006
Net cash provided by operating activities			494	422
Net cash used in investing activities			(304)	(159)
Net cash used in financing activities			(563)	(491)
Effect of exchange rate changes on cash and cash equivalents			11	4
Net decrease in cash and cash equivalents			(362)	(224)
Free cash flow			300	195
Free cash flow including restructuring payments, net ^(e)			226	127

(a) Restructuring refers to restructuring, impairment and other charges incurred in connection with the Operational Agenda (described in the Company's 2007 annual report) and Project Shape (described in the Company's 2006 annual report). The charges that are not allocated to the segments because they apply principally to the Company as a whole are included in Corporate. For the year ended December 31, 2007, restructuring, impairment and other charges net of taxes of CHF 36 million would be CHF 82 million and for 2006 the amount net of taxes of CHF 22 million would be CHF 47 million.

(b) During 2007, certain tax jurisdictions in which the Company operates enacted legislation to decrease tax rates effective in 2008. The revaluation of deferred tax assets and liabilities using these new tax rates resulted in a CHF 9 million net increase in income tax expense for full-year 2007, mostly in Germany partially offset by tax expense decreases, mostly in Italy. As a result, the Company's full-year 2007 effective income tax rate increased by 3 percent to 27 percent.

(c) Earnings per share, basic and diluted.

(d) Income from discontinued operations, net of tax, in 2007 results from the release of certain tax reserves that had existed in connection with the Company's divestment of the Performance Polymers business in 2000 following the settlement of tax audits in 2007. This was partially offset by costs incurred by the Company attributable to the Textile Effects and Masterbatch businesses that were disposed of in June 2006 and November 2006, respectively. Loss from discontinued operations, net of tax, in 2006 consists of the results of operations, net of tax, of the Textile Effects and Masterbatch businesses as well as CHF 2 million of costs attributable to the Performance Polymers business that was divested in 2000.

(e) Net of proceeds from restructuring-related asset sales in 2007 and 2006.

CONTACT

HEADQUARTERS

Ciba Inc.
Klybeckstrasse 141
CH-4002 Basel
Switzerland
T +41 61 636 1111
F +41 61 636 1212

INTERNET ADDRESS

www.ciba.com

INVESTOR RELATIONS

Matthias A. Fankhauser
T +41 61 636 5081
F +41 61 636 5111

Siegfried Schwirzer

T +41 61 636 5084
F +41 61 636 5111

SHARE REGISTER

Ciba Specialty Chemicals
Holding Inc.
c/o ShareCommService AG
P.O. Box
CH-8152 Glattbrugg
Switzerland
T +41 44 809 5858

FORWARD-LOOKING STATEMENTS

Forward-looking statements and information contained in this Shareholder Mailing are qualified in their entirety as there are certain important factors that could cause results to differ materially from those anticipated. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "are expected to," "will," "will continue," "should," "would be," "seek" or "anticipate" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such statements reflect the current views and estimates 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, social 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.

This letter to shareholders is published in both English and German.

© Ciba Inc. 2008

