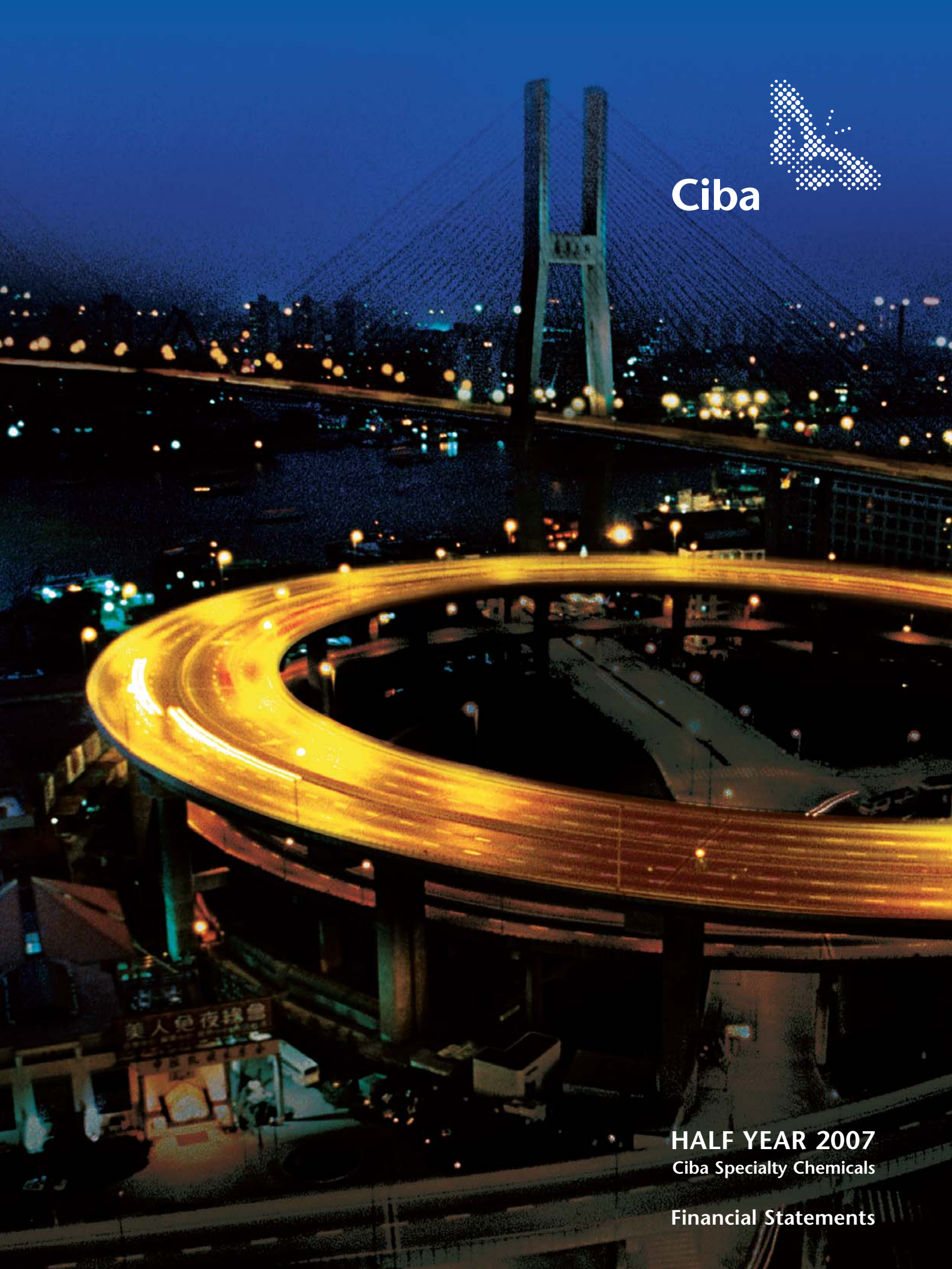




Ciba



HALF YEAR 2007  
Ciba Specialty Chemicals

Financial Statements

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# CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

SIX MONTHS ENDED JUNE 30,	NOTES	2007	2006
Net sales		3 308	3 236
Cost of goods sold		(2 348)	(2 281)
<b>Gross profit</b>		<b>960</b>	<b>955</b>
Selling, general and administrative		(521)	(526)
Research and development		(133)	(139)
Amortization of other intangible assets	4	(33)	(30)
Restructuring, impairment and other charges <sup>(1)</sup>	8	(65)	(33)
<b>Operating income</b>		<b>208</b>	<b>227</b>
Interest expense		(65)	(61)
Interest income		14	11
Other financial expense, net		(5)	(39)
<b>Income from continuing operations before income taxes and minority interest</b>		<b>152</b>	<b>138</b>
Provision for income taxes		(38)	(34)
Minority interest		(4)	(8)
<b>Income from continuing operations</b>		<b>110</b>	<b>96</b>
Income (loss) from discontinued operations, net of tax	9	(7)	30
Loss on sale of discontinued operations, net of tax	9	0	(328)
<b>Net income (loss)</b>		<b>103</b>	<b>(202)</b>
<b>Earnings (loss) per share, basic and diluted</b>			
Continuing operations		1.64	1.45
Discontinued operations		(0.11)	(4.51)
Net income (loss) per share		1.53	(3.06)
<b>Weighted average shares outstanding, basic and diluted (in millions)</b>		<b>67.2</b>	<b>66.1</b>

<sup>(1)</sup> For the six months ended June 30, 2007, restructuring, impairment and other charges, net of taxes of CHF 20 million, would be CHF 45 million and for the six months ended June 30, 2006, restructuring, impairment and other charges, net of taxes of CHF 11 million, would be CHF 22 million.

See notes to condensed consolidated financial statements

# CONSOLIDATED BALANCE SHEETS

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

	NOTES	(UNAUDITED) JUNE 30, 2007	DECEMBER 31, 2006
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		883	1 027
Accounts receivable, net		1 052	892
Inventories	3	1 367	1 241
Prepaid and other current assets		411	375
Current assets of discontinued operations		9	19
<b>Total current assets</b>		<b>3 722</b>	<b>3 554</b>
Property, plant and equipment, net		2 503	2 576
Goodwill		1 601	1 559
Other intangible assets, net	4	974	910
Financial investments		122	121
Other assets		399	361
<b>Total assets</b>		<b>9 321</b>	<b>9 081</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable		631	560
Short-term debt		204	173
Income taxes payable		27	38
Accruals and other current liabilities		725	729
Current liabilities of discontinued operations		32	66
<b>Total current liabilities</b>		<b>1 619</b>	<b>1 566</b>
Long-term debt		2 802	2 709
Deferred income taxes		140	138
Other liabilities		1 481	1 379
<b>Total liabilities</b>		<b>6 042</b>	<b>5 792</b>
Minority interest		85	75
<b>Shareholders' equity</b>	6		
Common stock <sup>(i)</sup>		69	69
Additional paid-in capital		3 937	3 929
Retained earnings		178	280
Accumulated other comprehensive loss		(840)	(928)
Treasury stock, at cost <sup>(ii)</sup>		(150)	(136)
<b>Total shareholders' equity</b>		<b>3 194</b>	<b>3 214</b>
<b>Total liabilities and shareholders' equity</b>		<b>9 321</b>	<b>9 081</b>

<sup>(i)</sup> Par value CHF 1 per share, 79.1 million shares authorized and 69.1 million shares issued.

<sup>(ii)</sup> June 30, 2007: 1.8 million treasury shares; December 31, 2006: 1.6 million treasury shares.

See notes to condensed consolidated financial statements

# CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions of Swiss francs)

SIX MONTHS ENDED JUNE 30,	2007	2006
<b>Cash flows from operating activities</b>		
Net income (loss)	103	(202)
Loss from discontinued operations, net of tax	7	298
<b>Income from continuing operations</b>	<b>110</b>	<b>96</b>
<i>Adjustments to reconcile income from continuing operations to net cash provided by operating activities:</i>		
Depreciation and amortization	176	180
Deferred income taxes	(4)	(15)
Restructuring, impairment and other charges	65	33
Restructuring payments	(22)	(45)
Gain on sale/disposal of assets, net	(8)	0
Minority interest and other non-cash items, net	0	53
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable, net	(132)	(95)
Inventories	(101)	(76)
Accounts payable	62	17
Other operating assets and liabilities	(67)	(39)
<b>Net cash provided by continuing operations</b>	<b>79</b>	<b>109</b>
Net cash used in discontinued operations	(4)	(9)
<b>Net cash provided by operating activities</b>	<b>75</b>	<b>100</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(97)	(100)
Proceeds from sale of assets	103	17
Sale (acquisition) of businesses, net of cash <sup>(1)</sup>	(24)	138
Loans and other long-term assets	(68)	(60)
Discontinued operations	0	(7)
<b>Net cash used in investing activities</b>	<b>(86)</b>	<b>(12)</b>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term debt, net	18	(31)
Proceeds from long-term debt	58	4
Repayments of long-term debt	(3)	(3)
Dividends paid	(201)	(198)
Treasury stock transactions	(18)	(58)
Other	1	0
<b>Net cash used in financing activities</b>	<b>(145)</b>	<b>(286)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>12</b>	<b>(5)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(144)</b>	<b>(203)</b>
Cash and cash equivalents, beginning of year	1 027	1 251
Cash and cash equivalents, end of June	883	1 048
<b>Supplemental cash flow information</b>		
Cash paid for interest	(112)	(119)
Cash paid for income taxes	(49)	(44)

<sup>(1)</sup> 2007 includes disbursements of CHF 35 million for separation and settlement costs attributable to the divestments of the Textile Effects and Performance Polymers businesses.

See notes to condensed consolidated financial statements

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

(in millions of Swiss francs)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COM- PREHENSIVE LOSS	TREASURY STOCK		TOTAL
					UNRESERVED SHARES	RESERVED SHARES	
<b>Balance at December 31, 2006</b>	<b>69</b>	<b>3 929</b>	<b>280</b>	<b>(928)</b>	<b>(136)</b>	<b>0</b>	<b>3 214</b>
Net income			103				103
Currency translation adjustments				87			87
Other				1			1
Comprehensive income			103	88			191
Cash dividends declared and paid			(201)				(201)
Treasury stock transactions		1			(14)		(13)
Other		7	(4)				3
<b>Balance at June 30, 2007</b>	<b>69</b>	<b>3 937</b>	<b>178</b>	<b>(840)</b>	<b>(150)</b>	<b>0</b>	<b>3 194</b>

<b>Balance at December 31, 2005</b>	<b>69</b>	<b>3 993</b>	<b>520</b>	<b>(409)</b>	<b>(95)</b>	<b>(175)</b>	<b>3 903</b>
Net loss			(202)				(202)
Currency translation adjustments				(10)			(10)
Other				(1)			(1)
Comprehensive loss			(202)	(11)			(213)
Cash dividends declared and paid			(198)				(198)
Treasury stock transactions					(56)		(56)
Other		11					11
<b>Balance at June 30, 2006</b>	<b>69</b>	<b>4 004</b>	<b>120</b>	<b>(420)</b>	<b>(151)</b>	<b>(175)</b>	<b>3 447</b>

See notes to condensed consolidated financial statements

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## 1. BASIS OF PRESENTATION

These condensed consolidated financial statements have been prepared from the unaudited records of Ciba Specialty Chemicals Holding Inc. and its subsidiaries (the "Company") in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP") for interim financial information and, accordingly, do not include all information and footnotes required by U.S. GAAP for complete financial statements. For further information refer to the Notes to Consolidated Financial Statements included in the Financial Review of the 2006 Annual Report. In the opinion of management, these 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 cash flows for the interim periods presented. Certain minor reclassifications to the 2006 financial statements have been made to conform to the 2007 presentation.

## 2. CONDENSED BUSINESS SEGMENT DATA

SIX MONTHS ENDED JUNE 30,	2007	2006
<b>Net sales</b>		
Plastic Additives	1 082	1 074
Coating Effects	940	930
Water & Paper Treatment	1 286	1 232
<b>Total net sales</b>	<b>3 308</b>	<b>3 236</b>

### Operating income before restructuring, impairment and other charges

Plastic Additives	161	153
Coating Effects	125	123
Water & Paper Treatment	46	35
Corporate and other expenses	(59)	(51)
<b>Total operating income before restructuring, impairment and other charges</b>	<b>273</b>	<b>260</b>

### Operating income margin before restructuring, impairment and other charges

Plastic Additives	14.8%	14.3%
Coating Effects	13.3%	13.3%
Water & Paper Treatment	3.6%	2.8%
<b>Operating income margin before restructuring, impairment and other charges</b>	<b>8.2%</b>	<b>8.0%</b>

### Restructuring, impairment and other charges <sup>(i)</sup>

Plastic Additives	13	0
Coating Effects	21	0
Water & Paper Treatment	18	0
Corporate	13	33
<b>Total restructuring, impairment and other charges</b>	<b>65</b>	<b>33</b>

SIX MONTHS ENDED JUNE 30,	2007	2006
<b>Depreciation and amortization</b>		
Plastic Additives	45	50
Coating Effects	52	53
Water & Paper Treatment	72	75
Corporate	7	2
<b>Total depreciation and amortization</b>	<b>176</b>	<b>180</b>

### Operating income

Plastic Additives	148	153
Coating Effects	104	123
Water & Paper Treatment	28	35
Corporate and other expenses	(72)	(84)
<b>Total operating income</b>	<b>208</b>	<b>227</b>

### Operating income margin

Plastic Additives	13.7%	14.3%
Coating Effects	11.1%	13.3%
Water & Paper Treatment	2.2%	2.8%
<b>Operating income margin</b>	<b>6.3%</b>	<b>7.0%</b>

<sup>(i)</sup> Restructuring, impairment and other charges that are not allocated to the segments because they apply principally to the Company as a whole are included in Corporate.

The Company is organized into three reporting segments: Plastic Additives, Coating Effects and Water & Paper Treatment. The Company's reporting 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. The same accounting policies are consistently applied to reportable segments across the Company and all segments generate revenue in the same manner. Reported sales reflect only sales to third parties. Intersegment sales are not material. The Company evaluates the performance of its reportable segments based on operating income.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## DESCRIPTION OF SEGMENTS

The segment Plastic Additives develops, manufactures and markets products and provides services to the plastic, lubricant and home and personal care industries. The Segment's products are additives, which are ingredients added in small quantities to polymers and other substrates that prevent aging and corrosion and help improve appearance, durability and performance of finished plastic goods, high-performance motor oils, industrial lubricants and home and personal care products. The Segment's service business provides customers with product application solutions.

The segment Coating Effects is a leading global manufacturer of organic pigments and functional dyes as well as the leading supplier of photoinitiators and light stabilizers to the coatings, graphic arts and electronic industries. The Segment develops, manufactures and markets additives, pigments and functional dyes, as well as additive and pigment concentrates, for the coatings, printing, imaging, electronic, information storage, plastics and fibers industries. The end-user markets for its products and services are, among others, the automotive, packaging, publication, electronics, information storage, construction, photographic and digital printing industries.

The segment Water & Paper Treatment serves the paper & board, water treatment and detergents & hygiene industries. The Segment provides tailored grade solutions to increase paper mill productivity and improve quality, functionality and performance of paper and board. The Segment also offers products and services used to treat the water streams in industrial and municipal applications and to improve the efficiency of mineral and oil processing as well as soil additives and specialty monomers. Furthermore, the Segment provides whiteners and antimicrobials for detergents and hygiene effects for a variety of personal care products.

## 3. INVENTORIES

	(UNAUDITED)	
	JUNE 30, 2007	DECEMBER 31, 2006
Raw materials	206	159
Work in process and finished goods	1 161	1 082
<b>Total</b>	<b>1 367</b>	<b>1 241</b>

Work in process and finished goods are shown net of allowances for obsolete, slow-moving and lower of cost or market adjustments of CHF 40 million as of June 30, 2007 and CHF 36 million as of December 31, 2006.

## 4. OTHER INTANGIBLE ASSETS

Other intangible assets by major class consist of the following:

	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET CARRYING VALUE
<b>JUNE 30, 2007 (UNAUDITED)</b>			
Developed technology and know-how	990	(251)	739
Patents	91	(40)	51
Trademarks and tradenames	38	(5)	33
Other	212	(61)	151
<b>Total</b>	<b>1 331</b>	<b>(357)</b>	<b>974</b>
<b>DECEMBER 31, 2006</b>			
Developed technology and know-how	911	(228)	683
Patents	88	(34)	54
Trademarks and tradenames	25	(4)	21
Other	202	(50)	152
<b>Total</b>	<b>1 226</b>	<b>(316)</b>	<b>910</b>

For the first six months of 2007, amortization of other intangible assets amounted to CHF 33 million (2006: CHF 30 million). For amortizing other intangible assets, based on the values at June 30, 2007, estimated future amortization expense is expected to be as follows: six months from July to December 2007: CHF 29 million; full years, 2008: CHF 74 million, 2009: CHF 72 million, 2010: CHF 68 million, 2011: CHF 69 million; 2012 and thereafter CHF 651 million.

## 5. RETIREMENT BENEFITS

The components of net pension expense for the Company's defined benefit pension plans for the six months ended June 30, 2007 and 2006 were as follows:

	2007	2006
Service cost	42	65
Interest cost	93	92
Expected return on plan assets	(93)	(99)
Amortization of prior service cost	(3)	0
Other (gains), losses and amortization, net	28	36
<b>Total net pension expense</b>	<b>67</b>	<b>94</b>

In connection with the sale of the Textile Effects business on June 30, 2006 (see Note 9), certain pension benefits and post-retirement benefits, liabilities and related assets for certain active employees and retirees of the Textile Effects business were assumed by the purchaser. This resulted in the recognition of a CHF 90 million loss (CHF 68 million, net of tax) for the affected benefit plans, which is included in Loss on sale of discontinued operations, net of tax for June 30, 2006. The components of net pension expense for the six months ended June 30, 2006 have not been restated for amounts related to continuing and discontinued operations as no detailed information was available. An estimate of the pension assets and liabilities as of June 30, 2006 allocable to the Textile Effects business has been included in discontinued operations.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## 6. SHAREHOLDERS' EQUITY

At the Company's Annual General Meeting on March 8, 2007, the shareholders approved a dividend payment to the shareholders of CHF 3 per share, based on 2006 results. The dividend payment, which totaled CHF 201 million, was made on March 13, 2007 (2006: CHF 198 million paid on March 8, 2006).

The Company purchased, net of sales, 189 419 shares of treasury stock in the first half of 2007 (purchased, net of sales, 706 425 shares in the first half of 2006) at market prices or, in the instance of sales of treasury stock in connection with the Company's employee stock plans, at the respective exercise prices.

The components of accumulated other comprehensive loss in the accompanying consolidated balance sheets are as follows:

	(UNAUDITED) JUNE 30, 2007	DECEMBER 31, 2006
Currency translation adjustment	(135)	(222)
Pension-related	(705)	(707)
Other, net of tax	0	1
<b>Accumulated other comprehensive loss</b>	<b>(840)</b>	<b>(928)</b>

## 7. CONTINGENCIES

### CONTINGENCIES

The Company operates in countries where political, economic, social, legal and regulatory developments can 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 connection with its Toms River, New Jersey site in the United States, the Company's subsidiary in the United States received a demand from local authorities to remove a landfill at the site and has been named as a defendant in a lawsuit seeking compensation for alleged damages to the environment (see Environmental Matters below). In connection with certain polyacrylamide products, the Company's subsidiary in the United States has been named as one of the defendants in two class action lawsuits in West Virginia (see Litigation Matters below).

### GUARANTEES

In the normal course of business, the Company has provided certain trade and other guarantees to third parties. The Company estimates that the fair value of these guarantees is not material and does not expect to incur losses as a result of these guarantees. As of June 30, 2007, the Company has provided guarantees to third parties for indebtedness of others of approximately CHF 1 million which will expire in 2008 or thereafter.

In connection with past divestments of businesses, the Company has issued certain indemnifications to the purchasers of those businesses related to the past actions of the Company in the area of compliance with environmental and tax regulations. At June 30, 2007, the Company had issued CHF 29 million of environmental indemnifications that decrease to CHF 25 million in 2008 and which expire in 2009. In addition, the Company has outstanding environmental indemnifications that were issued to the purchaser of its Performance Polymers and Textile Effects businesses, which were sold in May 2000 and June 2006, respectively. These environmental indemnifications are further discussed in the

Environmental Matters section below. The Company has issued certain tax indemnifications in connection with divestments of businesses and in connection with certain debt financing arrangements of the Company, that are unlimited in amount and, in certain instances, in time. As of June 30, 2007, the Company has recorded liabilities related to the environmental indemnifications totaling CHF 25 million (December 31, 2006: CHF 25 million). It is the opinion of the Company's management that the possibility is remote that these indemnifications will have a material adverse impact on the Company's Consolidated Financial Statements.

### 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 laws and regulations applicable to waste streams. In management's opinion, the Company substantially complies with all such laws.

Under the Company's agreement with 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 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).

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 May 31, 2000, 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 from May 31, 2000 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/or amount. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Performance Polymers business.

The contractual terms of the sale of the Textile Effects business stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Textile Effects business prior to June 30, 2006. With respect to any such environmental liabilities, the Company's obligation to indemnify is unlimited in amount and to a period of fifteen years following June 30, 2006, except for off-site releases, liabilities resulting from non-compliance, and certain risk management assessments and upgrades to buildings at one specific site, which are unlimited in time. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Textile Effects business.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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 as described in the following paragraphs.

At its Toms River, New Jersey remediation site, the Company's subsidiary in the United States is engaged in a large bio-remediation project that is estimated to take up to another four years to complete. Based on management's current estimates, the Company's environmental provisions are adequate to cover the expected costs to complete this remediation plan.

In 2005, the Company's subsidiary in the United States received a demand from local authorities to remove the Cell 1 landfill at the Toms River site. Environmental experts have been consulted and extensive discussions have been held with the local authorities. The U.S. Environmental Protection Agency has stated its opinion that the landfill does not need to be removed. It is therefore the opinion of the Company's management that the possibility is remote that the Company would be compelled to remove the landfill or to incur additional material costs related to this demand.

The New Jersey Department of Environmental Protection has filed a lawsuit naming the Company's subsidiary in the United States as a defendant. The lawsuit seeks compensation for alleged damages to natural resources at the Toms River site. The Company is engaged in discussions with the local authorities for the resolution of this lawsuit. Based on management's current estimates, the Company's environmental provisions are adequate to cover the expected cost of settlement of this matter.

The planning for the total remediation of the waste disposal site in Bonfol, Switzerland, which was closed in 1976, is expected to conclude in the near future. The responsibility for the remediation lies with eight chemical enterprises including among others the Company. The responsible companies cooperate with the governmental authorities to define the necessary measures in view of a final remediation of the site. The remaining planning and remediation effort could require up to ten years to complete. In management's opinion, based on the current remediation plans, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to complete the remediation at this site.

Remediation of the waste disposal site in Koelliken, Switzerland has commenced. The responsibility for the remediation lies with a consortium comprised of the canton and city of Zurich, the canton of Aargau and the Basel chemical industry, which includes the Company. The remaining remediation effort could require up to ten years to complete. In management's opinion, based on the current remediation plans, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to complete the remediation at this site.

In the Basel region, several landfills (Switzerland, France and Germany) contain chemical waste in smaller volumes than exist for other industrial and household wastes. Presently, eleven landfills are the subject of investigations carried out with the authorities by the "Interessengemeinschaft Deponiesicherheit Regio Basel", an association of the involved pharmaceutical and chemical enterprises (including the Company). These investigations are expected to be completed by the end of 2007. Upon their completion, the respective competent legal authorities will decide on the need for remediation actions, if any. As of

June 30, 2007, no remedial actions have been defined or required in a legally binding form. In management's opinion, based on its current knowledge of these landfills, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to remediate these sites.

In management's opinion, the environmental reserves accrued are sufficient to meet all currently known and estimable environmental claims and contingencies. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts provided. The effect of resolution of environmental matters on results of operations cannot be predicted due to uncertainty concerning both the amount and the timing of future expenditures and the results of future operations. Management believes that such additional amounts, if any, would not be material to the Group's financial condition but could be material to the results of operations or cash flows in a given period.

## LITIGATION MATTERS

Two class action lawsuits were filed in 2002 and 2003 against the Company's subsidiary in the United States and other chemical suppliers in West Virginia relating to the sales of certain products to coal preparation plants. The major claim in both cases is a request for medical monitoring on behalf of a class of workers in coal preparation plants due to exposure to residual acrylamide in products manufactured by the Company and several other defendants. There are also a few personal injury allegations. The judge had narrowed the class of the cases to two states in the U.S. and decided to allow a class of workers at wastewater treatment plants to join the lawsuit. In 2007, the Company's subsidiary and the co-defendants filed an appeal to challenge the allowance of a class of workers from a state outside of West Virginia as well as the phases in which the trial is to be held. This appeal is scheduled to be heard later in 2007.

Based on knowledge and use of acrylamide in its own manufacturing operations for several years, the Company does not believe that these claims have merit. However, if any liability were found, there most likely would be a sharing of the liability among many of the defendants, although it is too soon to assess what share any defendant would have of that liability, if any. The Company has established adequate reserves for legal expenses related to these claims, and is confident that these reserves are sufficient to prevent the claims from having any material adverse effect on its financial position or the results of its operations. Further, it is the opinion of the Company's management that the possibility is remote that costs will be materially in excess of existing reserves and will therefore have a material adverse impact on the Company's Consolidated Financial Statements.

## OTHER MATTERS

In the ordinary course of business, the Company is involved in lawsuits, claims, investigations and proceedings, including product liability, intellectual property, commercial, environmental, and health and safety matters. Although the outcome of any of these matters cannot be predicted with certainty, it is the opinion of the Company's management that the possibility is remote that any such matter will have a material adverse impact on the Company's business, financial position, cash flows or results of operations.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## 8. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES

Restructuring, impairment and other charges result principally from the following:

### OPERATIONAL AGENDA

In 2006, following the divestment of the Textile Effects business (see Note 9), the Operational Agenda was launched to fully align the Company's structure and processes to the needs of the remaining business. The specific elements of the Operational Agenda focus on streamlining the Company's organizational and geographic footprint, implementing a Company-wide system structure with new software, improving capacity utilization and reducing production and maintenance costs, strengthening market and customer focus and improving the effectiveness of the Company's research and development capabilities.

The cost of the program is expected to range from CHF 250 million to CHF 300 million before taxes comprised of employee severance costs ranging from CHF 180 million to CHF 200 million due to the reduction of approximately 2 500 positions, asset impairment charges ranging from CHF 50 million to CHF 70 million and other costs ranging from CHF 20 million to CHF 30 million. The total range of costs expected by segment are: Plastic Additives CHF 70 million to CHF 80 million, Coating Effects CHF 60 million to CHF 80 million and Water & Paper Treatment CHF 80 million to CHF 90 million. The remainder of the costs are expected to be incurred in corporate. The planned project completion date is 2009.

The following summarizes the Operational Agenda activity during the six months ended June 30, 2007:

	EMPLOYEE SEVERANCE	OTHER COSTS	TOTAL
<b>Operational Agenda restructuring provisions</b>			
Balance at December 31, 2006	1	0	1
Charged to operating income	21	5	26
Payments/settlements	(10)	(1)	(11)
Balance at June 30, 2007	12	4	16

	EMPLOYEE SEVERANCE	OTHER COSTS	IMPAIRMENT	TOTAL
<b>Operational Agenda restructuring charged to operating income</b>				
Incurring in 2006	8	8	0	16
Incurring during six months ended June 30, 2007	21	5	36	62
<b>Total incurred as of June 30, 2007</b>	<b>29</b>	<b>13</b>	<b>36</b>	<b>78</b>

Operational Agenda costs incurred since inception of the project by segment were CHF 13 million for Plastic Additives, CHF 21 million for Coating Effects and CHF 18 million for Water & Paper Treatment. All of these costs were incurred during the six months ended June 30, 2007.

### PROJECT SHAPE

Project Shape, which was implemented in 2004 to integrate Raisio Chemicals into Segment Water & Paper Treatment and to realign the Textile Effects business prior to its disposal in 2006, has been substantially completed.

## 9. DISCONTINUED OPERATIONS

### DIVESTMENT OF TEXTILE EFFECTS BUSINESS

On June 30, 2006, the Company sold its Textile Effects business to Huntsman Corporation. Customary post-closing working capital and other adjustments related to the sale were finalized during the six months ended June 30, 2007 resulting in CHF 6 million of net costs being reported in discontinued operations during this period.

For the six months ended June 30, 2006, the financial position and results of operations of the Textile Effects business transferred to Huntsman, as well as the loss on sale, have been reported as discontinued operations. The following table shows summarized financial information of the discontinued Textile Effects business for the six months ended June 30, 2006:

	2006
Net sales	664
Income before income taxes and minority interest	41
Provision for income taxes	(9)
Minority interest	1
Income from discontinued operations of Textile Effects business, net of tax	33

### OTHER

During the six months ended June 30, 2007, the Company incurred CHF 1 million of costs attributable to the Masterbatch business that was divested in 2006.

During the six months ended June 30, 2006, the Company incurred CHF 2 million of costs attributable to the Performance Polymers business that was divested in 2000.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

## FORWARD-LOOKING STATEMENTS

Forward-looking statements and information contained in these Half Year Financial Statements 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.

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