LETTER TO SHAREHOLDERS

Ciba Specialty Chemicals
Half Year 2007

LETTER TO SHAREHOLDERS

- Operational Agenda well on track
- Actions in Water & Paper Treatment showing results
- Innovation core to strategy
- Further expansion in Asia

Dear Shareholders,

The transformation of the business remained the priority for Ciba in the first six months of 2007. We made further good progress with the Operational Agenda to improve the efficiency and effectiveness of our organization and we see the results coming through. Our Plastic Additives and Coating Effects businesses continued to deliver good results and the issues we have in the Water & Paper Treatment segment are being actively addressed and profitability levels have therefore begun to improve.

Overall, sales increased by 2 percent over the first six months of last year, with good growth in Asia, particularly China. In Europe, we saw solid growth in a number of important markets, while NAFTA continued to be impacted by the slow automotive and construction industries. South America remained strong.

Operating income (EBIT) before restructuring increased by 5 percent to CHF 273 million or 8.2 percent of sales, with results coming through from our efficiency programs, Shape and the Operational Agenda. This improvement was despite some significant increases in raw material costs in the first half. Increasing sales prices to compensate for the higher costs is a key focus for us and we have

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announced a number of price increases in the second quarter.

The Operational Agenda is well on track to reach savings of CHF 60-70 million for the full year. As expected, we incurred CHF 65 million of restructuring charges in the first half. Including discontinued operations, net income reached CHF 103 million.

Our Plastic Additives segment increased operating income margin in the first half to 14.8 percent of sales, while Coating Effects maintained an operating income margin of 13.3 percent of sales. In Water & Paper Treatment, we are starting to see the results of the actions we have taken in the paper business. Operating income margin improved in the second quarter to 4.7 percent of sales from 2.4 percent in the first quarter. We are convinced we can significantly improve margins to more acceptable levels.

The implementation of new business processes, which included the roll-out of the SAP IT platform, impacted working capital levels in the first half. In particular, there was a considerable build up of inventories in advance of the go-live in order to make sure we had a smooth system transition. This also had some impact on free cash flow, which before restructuring payments was CHF 39 million for the first half, and included proceeds from the sale of some buildings in Switzerland. In general, most cash-outs, in particular interest payments, are made in the first half and free cash flow levels are therefore traditionally lower than in the second half. We are confident that free cash flow levels for the full year will improve over 2006.

Another step we have taken is to delist from the New York Stock Exchange to reduce costs and complexity in the Company. We will still however, maintain our ADR facility as a Level I program, allowing over-the-counter trading. Most importantly, we are fully committed to continuing our high standards of corporate governance, internal control and disclosure.

OPERATIONAL AGENDA WELL ON TRACK

I am pleased to see significant progress being made with the Operational Agenda. The aim is to improve our cost structure by CHF 400-500 million by 2009, with restructuring costs of CHF 250-300 million over the three-year period. The program comprises a number of initiatives in key areas, including innovation, marketing and sales, as well as lean manufacturing, a new company-wide system structure and the streamlining of operations worldwide.

The Marketing and Sales initiative continued to work across the Company to make sure all our processes in this field are world-class. In parallel, the Innovation initiative, which was launched in the first quarter, has identified a number of opportunities to build on existing chemical expertise, as well as develop the technologies of the future. Innovation processes are being overhauled to bring products to market much faster.

We are continuing to consolidate our presence in a number of countries to reflect the new organizational structure after the sale of the Textile Effects business. In the first half, we closed plants in Brazil, France and Finland, as well as consolidated our operations in Malaysia and South America.

As part of the streamlining of our processes, the new SAP IT platform, which is running in the UK and Italy, went live in Switzerland, Germany and Austria in May. Around half of our business worldwide is now transacted through SAP. The Lean Manufacturing initiative is now at a fairly advanced stage, with efficiency improvement programs being implemented in 17 of our 20 biggest sites

INNOVATION REMAINS AT THE CORE OF OUR STRATEGY

Chemistry is our business and in many areas we are a market leader in innovative products. In the first half of 2007, we launched a number of new products, including a range of pigments for the decorative cosmetics market. We also introduced a new black satin, pearlescent effect with many different applications for attractive packaging and consumer goods.

We have developed a new laser marking system for the packaging industry, which allows the late addition of data such as bar codes and due dates, at high speed and without ink. We have also entered the printable electronics market with a new range of conductive inks for radio frequency identification antennas, packaging and graphic arts applications.

FURTHER EXPANSION IN ASIA

Ciba has been in business in Asia for more than 130 years. It is a region we know well and one which continues to be a significant growth driver for us. Earlier in the year, construction began on a new pigments plant in Nanjing in China and our new antioxidants plant in Singapore becomes operational early next year.

In order to leverage the region's tremendous growth opportunities, our strategy is to build on our strong market position and adapt our products to local requirements. We are focusing on a number of key areas, including talent retention, as well as technical services, product development and local production. Research is also a very important part of our local strategy and we now have 100 people at the Shanghai R&D Center. China is our third-largest market and will become even more important for us in the future.

REDUCING CARBON EMISSIONS – AN IMPORTANT TARGET FOR CIBA

Global warming is a much talked about issue. It is also an issue we take very seriously at Ciba and one that we have been actively addressing for many years. Since 2000, we have reduced our energy consumption and CO_2 emissions per tonne of product by 42 percent and 41 percent, respectively, and are continuing to reduce these levels by optimizing our processes. We are also piloting a number of renewable energy schemes to reach our target of 15 percent of energy used coming from renewable sources by 2010. At our McIntosh plant in the US, we will begin using timber waste as an energy source in 2008, replacing 20 percent of the plant's energy requirements that had previously come from natural gas.

We also believe that specialty chemicals have a role to play in developing products that help reduce carbon emissions. We have introduced an additive for laundry detergent that effectively enables washing at very low temperatures and therefore saves a considerable amount of energy. In the Process and Lubricant Additives business line, we have developed additives for biofuels, which reduce the carbon emissions from cars. Growth in the markets for these kinds of products will be significant in the future and we will continue to develop technologies that make a contribution to reducing global warming.

POSITIVE OUTLOOK FOR 2007

With business conditions in the second half of 2007 similar to those in the previous year, we are expecting sales for the full year to increase over 2006 levels in local currencies. Before restructuring charges, operating income margin is expected to increase by about 1 percent. This assumes that raw material costs will not continue to rise as they did in the first half. Net income in Swiss francs, as well as free cash flow, are both expected to be above 2006.

I am looking forward to a successful second half for Ciba. On behalf of the Board of Directors and the Executive Committee, I would like to thank our employees, customers and shareholders for their continued support.

Armin Meyer
Chairman of the Board and
Chief Executive Officer

FINANCIAL SUMMARY HALF YEAR 2007

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

STATEMENTS OF INCOME

Six months ended June 30, (unaudited)	Excluding restructuring charges (1) 2007	Excluding restructuring charges (1) 2006	Including restructuring charges 2007	Including restructuring charges 2006
Net sales	**3 308**	3 236	**3 308**	3 236
Gross profit	**960**	955	**960**	955
Restructuring, impairment and other charges (1)			**(65)**	(33)
Operating income (EBIT)	**273**	260	**208**	227
Financial income (expense), net	**(56)**	(89)	**(56)**	(89)
Income from continuing operations before income taxes and minority interest	**217**	171	**152**	138
Provision for income taxes	**(58)**	(45)	**(38)**	(34)
Minority interest	**(4)**	(8)	**(4)**	(8)
Income from continuing operations	**155**	118	**110**	96
Earnings per share from continuing operations (2)	**2.30**	1.78	**1.64**	1.45
Loss from discontinued operations, net of tax (3)			**(7)**	(298)
Loss per share from discontinued operations (2)			**(0.11)**	(4.51)
Net income (loss)			**103**	(202)
Net income (loss) per share (2)			**1.53**	(3.06)

BALANCE SHEETS

	June 30, 2007 (unaudited)	Dec 31, 2006
Current assets	**3 722**	3 554
Property, plant and equipment, net	**2 503**	2 576
Other long-term assets	**3 096**	2 951
Total assets	**9 321**	9 081
Current liabilities	**1 619**	1 566
Long-term liabilities	**4 423**	4 226
Minority interest	**85**	75
Shareholders' equity	**3 194**	3 214
Total liabilities and shareholders' equity	**9 321**	9 081
Net debt	**2 120**	1 854

STATEMENTS OF CASH FLOWS

Six months ended June 30, (unaudited)	2007	2006
Net cash provided by operating activities	**75**	100
Net cash used in investing activities	**(86)**	(12)
Net cash used in financing activities	**(145)**	(286)
Effect of exchange rate changes on cash and cash equivalents	**12**	(5)
Net decrease in cash and cash equivalents	**(144)**	(203)
Free cash flow	**39**	3
Free cash flow including restructuring payments, net (4)	**17**	(34)

(1) Restructuring charges refers to restructuring, impairment and other charges incurred in connection with the Operational Agenda (2007 only) and Project Shape, each of which is described in the Company's 2006 annual report. For 2007, restructuring, impairment and other charges net of taxes of CHF 20 million would be CHF 45 million and for 2006, restructuring, impairment and other charges net of taxes of CHF 11 million would be CHF 22 million.

(2) Earnings per share, basic and diluted.

(3) Loss from discontinued operations, net of tax, in 2007 consists of costs incurred by the Company attributable to the Textile Effects and Masterbatch businesses that were disposed of in June 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.

(4) Net of proceeds from restructuring-related assets sales in 2006.

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

Value beyond chemistry