Ciba

LETTER TO SHAREHOLDERS

Half year 2008

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Armin Meyer

Brendan Cummins

DEAR SHAREHOLDERS,

The first six months of 2008 have presented significant challenges for our industry and it is clear that we are now operating in a weaker business environment than this time last year.

Raw material cost inflation has been unprecedented, the US dollar is weak relative to the Swiss franc and demand is slowing in some of our customer industries. Although we believe these factors to be temporary, together they have impacted our performance and undermined the strong operational results, which we delivered in some of our businesses, as well as the cost savings we are making throughout the organization. In addition to a difficult environment, in the Water & Paper Treatment segment we have also taken a non-cash goodwill impairment of CHF 595 million, which brought us into a loss in the second quarter.

From an industry perspective, we are continuing to see good growth in many areas –notably in the coatings market for the Asian automotive sector, as well as in electronic materials, and water, where there is still considerable potential to increase our market share in the mining and municipal areas. We are seeing signs of a slowdown in the automotive, converting and construction industries in NAFTA and Europe, some of which have been slowing for some months.

Regionally, double digit growth is being achieved in many of our businesses in Asia, while the Americas is flatter and Europe is slowing, particularly in the paper industry.

Overall, we are certainly not satisfied with the half-year results.

LOOKING AT STRATEGIC OPTIONS FOR PAPER AND EXPANSION FOR PLASTICS AND COATINGS

We have to ensure Ciba is well positioned in attractive markets to deliver strong growth and value to shareholders. Each of our businesses must at least earn their cost of capital within an acceptable time frame and the overall mix of technologies, businesses, application expertise, marketing capability and geographies has to be further improved to create the effective synergies. We are therefore evaluating strategic options for our paper and publication inks businesses, where in both cases, the business environment has deteriorated and further actions need to be pursued to optimize market positions and secure a sustainable future.

> We are planning a joint venture in the Middle East to build on our global leadership position in plastic additives.

In Plastic Additives, we are planning a joint venture to expand operational capacity in the Middle East, where rapid growth in this area will build on the Company's global leadership position in plastic additives. We are also planning to make acquisitions to strengthen our Coating Effects business.

INDUSTRY-FOCUSED OPERATING MODEL

From an operational perspective, with SAP now live across the organization, we are in a good position to implement a new operating model. Industry focused platforms are being created to bring benefits across the Company, such as a greater degree of transparency and a deeper level of business accountability. As of 2009, each business will manage and report its own operations, with profit and loss responsibility and a lean support structure.

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All the plastics businesses for example, (which currently comprise Base Polymers and Polymer Products in the Plastic Additives segment, along with pigments for plastics business in Coating Effects) will become one unit.

There will also be a new growth platform, where a number of small, high potential businesses are being brought together with embryonic projects and innovation. In this platform, specialist R&D and marketing expertise will work together to exploit markets for new products, as well as actively pursue technological partnerships with research institutes, entrepreneurs and universities.

OPERATIONAL AGENDA ON TRACK TO COMPLETE IN 2009

The Operational Agenda program, which was launched in 2006 to reduce costs and drive growth throughout the Company, is progressing well. By the end of next year we expect to have around 2,500 fewer positions; a leaner manufacturing network; a consolidated corporate structure; and a new global IT platform. The innovation process has been overhauled and the marketing and sales function is running effectively. These actions are significant and have clearly taken time to deliver results, however we are now expecting the benefits to come through strongly over the next few years.

POSITIONING CIBA FOR THE LONGER TERM

Key to our thinking on all the initiatives we are instigating, was to make sure we were investing in the right technologies for the longer term, not just for mid term commercial potential. In our analysis of global trends, we concluded that we have significant scope to develop markets in a number of areas. We see that energy, or more importantly energy efficiency, will continue to be crucial in all industries. Here we are developing ever more innovative ways of substituting heavier material with lighter weight plastics to reduce energy consumption. We have also developed additives to improve the viscosity and durability of lubricants, which makes fuel more efficient. In water, we see massive global potential for our chemicals to treat water, and we continue to find exciting ways to make materials safer, look better, scratch less, degrade less and last longer. Overall, it is our aim to continue to bring new applications to our customers, and in the process, develop chemistry that can reduce our impact, or that of our customers' on the environment. At Ciba, we believe this is the future, and we know we have the expertise to succeed.

We are able to confirm the outlook for 2008 – despite the difficult economical environment and assuming that business conditions do not worsen further. This is primarily based on the significant sales price increases now taking effect and the related margin improvements coming through since mid June.

We would like to finish by thanking you, our shareholders, for your continued support in these demanding times. We are convinced that the strategic moves we are taking mark an important crossroads for Ciba and that after some turbulent times we are now finally approaching the end of our transformation phase. Going forward, we are confident that Ciba has an exciting future and that we can deliver value going forward.

Armin Meyer

Brendan Cummins

CONSOLIDATED FINANCIAL SUMMARY

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

STATEMENTS OF INCOME (UNAUDITED)

	Excluding restructuring [a]		Including restructuring	
Six months ended June 30,	2008	2007	2008	2007
Net sales	**3 088**	3 308	**3 088**	3 308
Gross profit	**829**	960	**829**	960
Restructuring, impairment and other charges [a]			**(638)**	(65)
Operating income (EBIT) (loss)	**161**	273	**(477)**	208
Financial income (expense), net	**(71)**	(56)	**(71)**	(56)
Income (loss) from continuing operations before income taxes and minority interest	**90**	217	**(548)**	152
Provision for income taxes	**(32)**	(58)	**(19)**	(38)
Minority interest	**(1)**	(4)	**(1)**	(4)
Income (loss) from continuing operations	**57**	155	**(568)**	110
Net income (loss)			**(569)**	103
Net income (loss) per share [b]			**(8.50)**	1.53

Balance sheets

	(unaudited) June 30, 2008	Dec 31 2007
Current assets	**3 246**	3 340
Property, plant and equipment, net	**2 274**	2 426
Other long-term assets	**2 236**	3 022
Total assets	**7 756**	8 788
Current liabilities	**2 259**	1 972
Long-term liabilities	**3 126**	3 431
Minority interest	**59**	80
Shareholders' equity	**2 312**	3 305
Total liabilities and shareholders' equity	**7 756**	8 788
Net debt	**2 191**	1 913

Statements of cash flows (unaudited)

Six month ended June 30,	2008	2007
Net cash provided by (used in) operating activities	**(11)**	75
Net cash used in investing activities	**(184)**	(86)
Net cash provided by (used in) financing activities	**20**	(145)
Effect of exchange rate changes on cash and cash equivalents	**(16)**	12
Net decrease in cash and cash equivalents	**(191)**	(144)
Free cash flow	**(126)**	39
Free cash flow including restructuring payments, net [*]	**(167)**	17

(*) Net of proceeds from restructuring-related asset sales

(a) Restructuring refers to restructuring, impairment and other charges, substantially all of which have been incurred in connection with the impairment of the Water & Paper Treatment goodwill and the Operational Agenda (described in the Company's 2008 half-year 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 six months ended June 30, 2008, restructuring, impairment and other charges net of taxes of CHF 13 million would be CHF 625 million and for 2007 the amount net of taxes of CHF 20 million would be CHF 45 million.

(b) Earnings per share, basic and diluted.

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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.

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