



Page 1 of 5

Basel, February 26, 2004

Documentation

Ciba Specialty Chemicals in Asia

Presentation by Kuno Kohler, Regional President Asia South, Ciba Specialty Chemicals at the Annual General Meeting, 2004

Dear Shareholders,

Asia has many faces and is distinguished by incredible cultural diversity. Asia is a continent in upheaval, where tradition stands side-by-side with modernity, wealth with poverty, major metropolis with rural idylls. Most of all, Asia is booming like no other continent:

- China, with its phenomenal nine-percent growth rate, is on everyone's lips. Gross domestic product has nearly doubled in the past eight years, inbound foreign investment is still growing and the private sector is gaining in importance.
- India likewise has enormous future potential and is already the world's fourth-largest economy in local purchasing power terms.
- Southeast Asia has overcome the so-called "Asia crisis" and is back on the growth path.
- And Japan too, after a prolonged slump, appears to be regaining its footing.

The importance of Asia for the world economy is growing with the lowering of trade barriers, opening of markets, structural change leading to a consumer society and the development of high-performance industries and services.

Asia today, already accounts for 25 percent of the world economy, and this share will increase further. Asia is a major opportunity, but also a challenge for Ciba. On the one hand, competition from Asia is growing ever stronger. On the other, as a worldwide company, we have a great opportunity to take part in this growth.

As Armin Meyer said in his address, Ciba Specialty Chemicals wants to take up this challenge. We already hold a strong position in Asia and have defined a clear strategy

for capitalizing on the opportunities while managing the risks. We have good reason to be confident:

- We have many years of experience. Ciba first exported dyes to Japan in 1870 and Geigy launched its China business in 1886.
- Ciba was one of the first chemical companies to make significant direct investments in the Far East.
- We already generate 28 percent of our sales in the Asia-Pacific region, giving us the lead position in our industry.
- Our 3100 employees in Asia already account for one-sixth of our worldwide staff.
- Our sales share in Asia-Pacific is very high.
- We have a presence in 13 Asian countries comprising all economically relevant markets.
- We possess no fewer than 19 production sites in eight countries.
- In seven countries we have built up technical service centers to support local customers in the application of Ciba products.
- And a third research and development center in Shanghai will join the existing centers in Japan and India this year.

Our business successes in Asia have been impressive. Since 1997, our sales have grown over 40 percent at regular exchange rates, with growth driven primarily by the China region with growth of 137 percent and the Indian subcontinent, where our sales more than tripled.

What's the secret of our success? In my 18 years of work in Asia, I have learned that the right balance is needed between adjusting to specific Asian conditions and sticking to Western business principles. The slogan "Think globally, act locally" only approximately expresses this balance. In many cases there are conflicting considerations to be weighed before a decision can be made.

Our guiding principle in these cases: Ciba Specialty Chemicals' core values and principles are valid everywhere, including Asia. These comprise, not only product quality, but also our environmental and safety standards, the principles of our Code of Conduct, and our global business strategy. Those who compromise their business integrity lose face — and in Asia that is the worst thing that can happen to you.

At the same time, we behave as insiders in Asia and fully embrace Asian concepts and ways of thinking. A cornerstone of this approach is recruiting, promoting and developing local talent within the corporation. Tens of thousands of highly qualified chemists graduate from Asian universities each year. Shaped in large part by Confucian values, many Asians are exceptionally diligent, hardworking and eager to learn. Our aim is to use this potential to the full.

Another key success factor is taking a step-by-step approach. There are many examples of Western companies undertaking investments in Asia without first securing sales or really knowing the risks. Then the hoped jump ahead can turn into a long march.

Ciba Specialty Chemicals, however, pursues a considered, step-by-step strategy comprising three stages.

The latest example is China.

- In the first stage, Ciba developed a sales organization to capture sales and market share with imported products.
- In stage two, above all in the second half of the 1990s, we invested in production. These facilities supply not only the local market, but other countries as well. Already a quarter of our products for Asia are produced in China.
- In the third stage, we as insiders deliberately use existing structures to gain further growth, and build on to these additional centers for customer service and application development.

Ciba Specialty Chemicals has countless success stories in Asia. I have chosen a few examples that typify how we apply our special strengths to meet the specific needs of Asian markets.

For example, did you know that 70 percent of plastic toys sold around the world are produced in China? These and other export industries process enormous quantities of plastic. This is an attractive market for plastic stabilizers, flame retardants and color pigments from Ciba Specialty Chemicals. More and more plastic products are also being sold in China itself. Overall our market in the plastics sector is growing by 15 percent a year. That means it's doubling every five years!

Major shifts are also taking place in the textile market. Worldwide production of textiles and garments is increasingly moving to Asia, especially China. For that reason we have made it a priority to expand our presence in China in the textile dyes and chemicals sector in recent years.

While export industries are the Asian economies' greatest growth drivers, local demand is also expanding thanks to rising standards of living. Here too Ciba Specialty Chemicals takes the special needs of Asian consumers into account.

Whereas suntans are still considered attractive here at home, in Asia the ideal of beauty is fair skin. So when India's Liva Healthcare brought a sunscreen containing our UV filter to market, it was an immediate hit. The product name promises "no more suntan" — and our highly effective UV filters enable it to keep that promise.

Another example is our assortment of hair dyes and hair care effects developed especially for smooth, highly pigmented Asian hair.

Rapid development also gives rise to entirely new demands. One of the most important in Asia is the need to get a grip on environmental pollution. Among scarce resources, water is the most important to life but also one of the most threatened. China has more cities with over a million inhabitants than any other country, but so far possesses only about 400 water treatment plants. Driven by upcoming major international events such as the 2008 Olympics and the 2010 World Exposition, over

300 additional wastewater treatment plants are currently under construction. Shanghai plans to treat 70 percent of its wastewater within three years. We intend to seize this opportunity to market our highly effective flocculation agents for water treatment.

Three decades ago, "Made in Japan" was the catchphrase of an Asian economic miracle. Even if recent years have seen more economic bad news than good coming from the Land of the Rising Sun, over half of Asia's gross national product is still produced in Japan. Especially in electronics, many Japanese companies remain leaders in new technologies. Our Japanese research center in Amagasaki therefore works closely and successfully with customers, helping drive enormous growth rates for our products for liquid crystal displays.

Even in a rapidly growing market such as China, success doesn't just fall from the sky. We have to work for each additional sale.

The world's two most populous countries, India and China, are both simultaneously space-faring nations, and also developing countries. In itself this speaks volumes about the potential, but also the complexity, and the risks of the present upheaval. Nearly all Asian countries have only a brief history as independent nations with different political and economic models. Our broad presence in many Asian countries and markets allows us to better cushion the impact of the resultant risks.

Whoever wants to have a place in global business must grow in Asia. And whoever wants to grow in Asia must learn from Asia.

There are not just many potential new customers in Asia, we also face many new competitors there. We have to stand up to these competitors on their own ground. The Asian market is not uniform. There are many small to medium-sized customers. In light of tough competition, most Asians are still highly price-conscious. At the same time, demand is increasing. All of these things must be taken into account. Products of less than world-class quality don't stand a chance. Conversely, Asian needs cannot always be met with a global standard product. Instead, specifically Asian product formulations, packaging and pricing approaches are often needed.

A particularly promising approach is to combine quality and price. For example, the Textile Effects segment was the first to introduce the new Cibacron® S in China, where we expect a great success with deep black shades in a very cost-effective product.

And that brings me to my conclusion:

Asia is the market of the future for specialty chemicals. Ciba Specialty Chemicals already holds an exceptionally strong position in this market. Through considered investments and superior innovations, we intend to make it stronger yet. This will mean hard work. But I am convinced that our efforts will continue to meet with success.