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Documentation

Focus on the customer - Keeping our eyes on the consumer

Presentation by Hermann Angerer, Head of Coating Effects Segment, Ciba Specialty Chemicals at the Annual General Meeting, 2005

Dear Shareholders,

Focusing on customers. Keeping our eyes on consumers. What does that mean for us at Ciba Specialty Chemicals? Putting ourselves in our customers' shoes.

Understanding our customers' needs. Working together with them. Helping them achieve success.

We create effects that improve the quality of life – that's our vision. It means keeping our eyes on the consumer. As you saw in the video, our products can be found in many everyday items, in packaging, in cars, in water treatment. Our additives enhance the quality, look and characteristics of a whole raft of end products.

What markets do we operate in?

The video looked at the packaging, automotive and water treatment sectors. But these reflect only about a third of our activities. Our products go into carpets and textiles. We have a strong position in the paper industry – in part thanks to former Raisio Chemicals.

Ciba effects can be found in agriculture, for example, in film for greenhouses, in the construction trade and in electronic articles. Our customers are also active in the oil production sector and in mining. They manufacture lubricants, household cleaners, cosmetics and - of course - plastics.

All in all, a broad line-up of effects designed to improve the quality of life.

For Ciba Specialty Chemicals, customer focus doesn't just mean understanding the needs of our direct customers. We need to familiarize ourselves with the entire value chain – right through to the consumer.

Using the value chain, I'd now like to take a look at the different stages that lie between our products and an end product – such as a car or an item of packaging. It's this that gives a whole new dimension to the concept of customer focus:

We purchase raw materials or intermediates. In sometimes highly complex chemical processes, we transform them into products that create the desired effect. We then sell these products to our direct customers, who carry out further processing: Manufacturers of plastics and paints, producers of printing inks or textile processors. Their products in turn go to film manufacturers, textile equipment producers or makers of auto components.

It's only at the next stage in the value chain that we see the branded goods that are so familiar to the consumer: Alessi, BMW and Colgate being just some examples.

Allow me to give you the following example from the automotive industry to highlight how we cooperate with our customers' customers: We don't sell specialty chemicals directly to car manufacturers but to the companies that supply them. We're nevertheless in contact with carmakers, showing them new possibilities and advising them – and in this way we help generate demand for our products.

The automotive industry employs millions of people. It consumes over half the world's entire production of plastics. It generates a tenth of the gross domestic product of the industrialized countries, and around a tenth of Ciba's sales. Cars are an important business.

Our offer to the automotive industry is a comprehensive one: We produce pigments and dyes, ensuring attractive and long-lasting color for paint and textiles. Our light stabilizers and other additives help preserve the brilliant sheen of a car's paintwork.

Ciba stabilizers also protect plastics from the harmful effects of UV light and high temperatures. Our additives for lubricants prolong the life of engines, reduce emissions and also help lower fuel consumption.

Our expertise and our effects therefore help sell cars, even though we are two or three stages upstream of the end product. This makes it all the more important for us to understand the industry and address trends all along the value chain.

At the end of March, we'll have an opportunity to present ourselves to one of the world's largest automobile manufacturers. At an event called Ciba-Innovation-Day, we'll be discussing specialist expertise and technological know-how with more than 300 engineers, researchers, designers and purchasing managers. This gives us the chance not just to market our individual products but also to present our entire portfolio. And in the process we get to learn more about the car manufacturer's requirements and future projects.

Initiatives like this one help us analyze the entire value chain right through to the consumer - on an industry-specific and cross-segment basis. But we never lose sight

of our direct customers either: DuPont, BASF, Dow, Exxon Mobil, Unilever, Procter & Gamble – to name just a few.

These are major customers, or "global key accounts". Each of these strategically important customers is handled by a single Ciba account manager on a worldwide basis.

This has the advantage of giving us a full understanding of the needs of the customer, and of the way in which that customer's markets are developing. At the same time, we build up our competence and relationship over the years – making us a recognized partner.

Where most of our key accounts are concerned, we regularly conduct structured feedback rounds: How has the business developed, how have expectations changed and how can we further enhance our offer? The result is a jointly developed marketing plan, for both partners serving as the basis for day-to-day cooperation.

The structured service provided to our strategic customers can also open new doors, such as in the case of Colgate Palmolive – known around the world for its personal and household care products. In the past, Colgate Palmolive had been primarily interested in our products for household and personal care products.

Together, we have now identified what other Ciba effects could be of interest to Colgate Palmolive. We are now cooperating in the packaging field as well.

We've spoken about our customers, and in the process have frequently mentioned the consumer. But who is this "consumer"?

Research is carried out to create profiles of today's consumers – by age, lifestyle and habits. Studies like this help us predict new trends and gear our product development activities accordingly.

One example is the packaging of food. This area has changed enormously in recent years, as consumers have altered their eating and cooking habits.

More and more foods are being offered on a fully or semi-prepared basis. Salad is washed and prepared, soup is pre-cooked and pasta dishes are oven-ready. Convenience foods are booming – a key characteristic of today's lifestyles.

A study has shown that more than half of all people invest less than half an hour in the preparation of their main meal. On top of that, we are seeing an expansion in the number of one-person households. More and more women are working. Time is in increasingly short supply.

The market for ready meals is riding this wave, growing 6% annually in global terms. Accompanying this is the rising demand for functional packaging and related technologies.

Ciba Specialty Chemicals too is involved in the packaging sector. We advise our customers on ways not just to be a part of this development but also to play an active role in shaping it.

Last year we acquired Pira International, a leading firm of consultants to the packaging industry. Its strategic research activities include providing forecasts for new technologies and market developments.

This benefits us across all segments, because plastic plays just as important a role in packaging as paper and cardboard, printing techniques and colorants.

We also take our inspiration from the wishes of consumers. That's why, for instance, you'll soon be seeing "intelligent" packaging on the shelves. Sensors will show, among other things, whether food has been stored at too high a temperature and is no longer fresh.

Customer focus means stepping into our customers' shoes. But it also means knowing what the future has in store for our customers – that is, having the ability to identify emerging trends.

Colors, for instance, can often fall victim to the whims of fashion. A color that's "in" today can easily be "out" again next year. Our customers are also actively hunting out new color-effect combinations for their products.

Nowadays, even everyday items such as vacuum cleaners are offered in a huge array of colors and finishes. And special packaging is increasingly being used to enhance the profile of branded goods.

The production of new effects like gloss, matt or transparent colors requires a high level of technical and color expertise – and this is one of our core competencies.

But how can carmakers or designers predict which colors will be big sellers? To help advise our customers about changing preferences as early as possible, Ciba Specialty Chemicals cooperates with Nelly Rodi – one of the leading consultancies in color trends.

Nelly Rodi has specialist expertise in the textiles, packaging, automotive and cosmetics industries. With the help of comprehensive documentation – known as "trend books" – it supports creative teams and manufacturers in developing future product lines.

This year we contributed to three Nelly Rodi books about summer trends in 2006: *Art of Living*, *Colors*, and *Beauty*.

This cooperation benefits our customers, as it enables them to have their finger on the pulse of change. At the same time, we position ourselves as trendsetters, offering a service that extends beyond just products.

That brings me to my conclusion.

Ladies and gentlemen, Ciba Specialty Chemicals focuses on the customer and keeps an eye on the consumer. That's a tall order. It requires us to be close to our customers, yet to maintain a distance and be far-sighted. We continually step out of our direct spheres of competence into the shoes of our customers – as well as those of the consumer.

The market is in flux, and the rules are constantly changing. Technological competence and innovative products alone are not enough to guarantee success these days.

Being familiar with the dynamics of the marketplace – right through to the consumer – is key. We need to envision the future, and interpret trends correctly. This is the only effective way to target advice to our customers and to ensure our shared success in the long term.

Thank you.