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Documentation

Operational priorities: Innovation, marketing, production
Presentation by Brendan Cummins, Chief Operating Officer
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Ladies and Gentlemen, as Armin Meyer mentioned, we are operating in a tough business environment. The chemical market is complex and competition is aggressive. The rules of the game are changing every day – often influenced by small players from Asia.

It's a challenge to stay ahead, but we are committed to actively shaping the market. We will master the challenges, because we have a great business with a strong product portfolio, a solid market position, a global presence and experienced and committed employees.

I'd like to give you some insights into our immediate operational priorities and how we intend to tackle them.

We serve many industries, from automotive to packaging, from agriculture to personal care, with hundreds of products. And we offer many exciting technologies: organic synthesis, radical chemistry, polymer chemistry, catalysis, photochemistry – to name but a few.

The video at the beginning gave you an overview of the innovative effects which we bring from lab to life, from the very first idea right down the value chain to the consumer.

Every innovation in our business goes through a characteristic life cycle, from its first stage as a unique, patented product to the point where exclusivity gives way to efficiency as the crucial competitive advantage. Each phase requires a different way to manage.

When an innovative technology is introduced, it is usually protected by patents, offering broad growth opportunities and effective differentiation for the customer.

A good example is our new photoinitiator for the very lucrative liquid crystal display market, which we launched in 2005. LCD technology is used in almost all electronics, from cellphones to laptops to flat-screen televisions.

And this relies on one of our products: a red pigment that creates colorful, life-like pictures. But not only is our red pigment a standard in the LCD industry, we will soon be introducing a complementary green pigment.

We have also launched a suite of photoinitiators tuned to LCD applications to solve some of the industry's greatest manufacturing challenges. These chemicals react with light to allow exact, repeatable and speedy creation of complex, tiny structures in the layers of the screen. Our customers are in fact investing billions to seize their share of this growth market.

And this innovation helps our customers to succeed.

We can only be a really good partner when we are as close to the customer as possible, understanding their markets, their products, their needs and their challenges; because our business success is not only about chemicals, it is also about relationships, it is about in-depth know-how and value adding services: From processing support to customer specific blends and easy-to-handle product forms, from consistent quality to reliable supply and much more.

We always aim to add value by finding the best solution for the customer, which we uncover through our customer partnerships.

In paper mills, for example, Ciba employees often work in the customer's site for weeks solving complex processing problems. Such services are a way to make a difference along the entire life cycle, even when a product comes off patent. This is usually when the strongest competition comes into play.

Products or "semi-specialties" inevitably get copied and lose their uniqueness. But: We can still make money with them. Key to successfully managing semi-specialties is operational excellence: consistent high quality, low cost production and supply performance.

Our leading position in stabilizers for polymers, for example, was originally founded by innovation. Over decades of life cycle development, we have had to find new means to stay ahead. Being the lowest-cost high-volume manufacturer and distributor of these essential chemicals is a competitive advantage. But so is being able to offer customer-specific blends of additives that add value in use.

Something that bulk competitors cannot offer.

In Expert Services we leverage our unique competencies and expertise and consult companies in the food, packaging or pharmaceutical industry. Our knowledge-based services include regulatory advice, testing services or industry-specific conferences –

independent from Ciba products. This area offers strong revenue potential with high growth rates.

Innovation is key at every stage: in technology and application know-how, but also in process development and in our service approach.

Our research is customer driven, anticipating trends and shaping tomorrow's consumer world. Outstanding chemistry is the ultimate source of our success.

But innovation needs to be a structured process: all things are possible, but not all discoveries lead to sustainable, profitable growth. Our innovation process builds strong technology platforms: materials and methods with a broad spectrum of future applications.

We also work with academic partners all over the world to make sure we remain at the leading edge of innovative chemistry. In 2005, for example, we strengthened ties with the ETH in Zurich, with five global research projects in plastics and packaging.

So, how do we approach R&D? We look outside-in as well as inside-out. We try to anticipate future trends and understand what consumers want – tomorrow. At the same time we have to make our customers understand how our technology can help them differentiate their offering.

For each R&D project we assess market prospects, time-to-cash, risks involved and the competitive landscape, and define the resources required to make the project happen.

But at the same time it's important to stay focused and realistic – last year we reduced the number of projects by 20 percent to 200. This means we have a full pipeline of promising R&D projects, but at the same time we are able to allocate resources effectively.

We work hand in hand with our customers – and quite often our customers' customers - solving problems and developing new products. In 2005, we launched an initiative to better align our activities with key end-user markets.

We organized innovation days at Ford and Toyota, where our researchers discussed Ciba Specialty Chemicals' effects and automotive trends with transportation engineers. The benefit is clear: The more we listen to the markets, the more we learn about future technology needs.

As the competitive environment has become tougher and tougher, the way to approach markets is getting more complex. Today the customer has more choice than ever before. That's why marketing excellence is high on our agenda for 2006.

Our aim is to fully exploit Ciba Specialty Chemicals' business potential and extract value from our offerings. This means, everything we do must be driven by customer demand and add value to the customer. But the customer must also be willing to pay for what we offer. If he is not, then we should not do it.

This sounds simple. In reality it is quite difficult. Customer segmentation therefore has to be the name of the game.

We segment customers according to a consistent, group wide framework based on profitability and industry specific criteria. With this we can better define appropriate service levels for a customer, not by ignoring the small ones, but by focusing on where we can add value and can charge for it.

Our marketing and sales initiative also involves reviewing routes to market; it involves further training and a more consistent approach to market intelligence.

Managing our pricing policy has always been important – but never more so than today. As raw material costs have risen so dramatically, increasing our sales prices has become essential.

In 2005 we managed to turn around an historic annual price erosion of 3 percent, to a 2.5 percent increase, but still, pushing through higher prices remains a challenge and takes time.

Our approach to manufacturing is also driven by customer demand. We try to be close to our customers – also geographically. That helps us to better understand their needs and to operate and supply efficiently.

As Asia is a core growth area for Ciba Specialty Chemicals, we are continuing to strengthen our presence there – close to the expanding markets. Last year we opened a new R&D center in Shanghai, which will employ 100 scientists.

Next week the groundbreaking for a new production plant in Singapore takes place. Here we are investing around 125 million CHF in this state-of-the-art production facility that will ensure continuous supply of antioxidants to the fast growing polymer industry in Asia-Pacific and the Middle East.

Global plastic production continues to grow above GDP level. And consumer demand is expected to grow by 4 percent annually over the next five years.

Our plant is located in the fast developing Jurong Island petrochemical complex, with excellent infrastructure and support facilities, backward integration into key raw materials and options for future expansion.

India also is an important market for Ciba with double-digit sales growth and exciting prospects. We are already strong in India, with manufacturing as well as specialized R&D activities that we are expanding further. Now we are investing around CHF 50 million for new and extended facilities – for Coating Effects in Goa and Paper Chemicals in Ankleshwar.

This is another important step to strengthen our position in Asia.

We don't just invest in new capacity, though; we continuously strive for operational excellence.

Assessing our plants and looking for ways to improve efficiency includes everything from maintenance planning, to the elimination of product defects, the use of storage, energy efficiency and scheduling.

We have more than 75 plants worldwide and half of all Ciba employees work in production. So we know that this is a critical area, and we are committed to stay ahead as the low-cost manufacturer.

Last but not least, the way we manage everyday activities is the nerve system of any organization. To turn an idea into a product and sell it into the market involves many, many steps. And many distinct processes that are all interlinked.

Over the last year, we have reviewed all our operational processes – aiming to streamline procedures and eliminate non-value adding activities. We are now well advanced in harmonizing business processes and implementing a company-wide system supported by new software. This means: tracking products from the raw material stage to the customer is only a mouse-click away – at any time. With this transparency we will become much faster and much more efficient. First local roll-outs of these new processes are planned for later this year.

Ladies and Gentlemen, in closing I would like to clearly say that 2006 is a year full of changes and challenges, but also of opportunity for Ciba Specialty Chemicals.

To thrive we have to change and continuously adapt the way we work: in R&D, in manufacturing, in marketing, in sales and in simplifying our processes.

With the priorities outlined and our dedicated and hardworking people, we will make the difference. I am determined that we will improve our performance and deliver good results and shareholder value.

Thank you for your attention.