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Documentation

***Presentation by Brendan Cummins, Chief Operating Officer  
Ciba Specialty Chemicals, Annual General Meeting 2007***

Dear Shareholders,

I very much look forward to taking over the responsibility as CEO in 2008 and leading Ciba into the future. I thank the Board of Directors for their trust and my colleagues at Ciba for their commitment.

Ciba is not a good company. Ciba is a great company. Yes, we have had our difficulties in recent times, but we have incredibly talented people and a lot of potential. With a clear strategic focus and decisive measures, I am confident that we will again make Ciba a top performer in the chemical industry.

I would also like to thank you for your support.

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Please let me now share with you some thoughts on the opportunities and challenges in today's demanding business environment. I will also give you an overview of the Operational Agenda and, last but not least, some insights into our performance in Environment, Health & Safety.

I have been with Ciba for more than 30 years, 20 of them in Asia. And it is incredible to see how much the business environment has changed over time. The dynamics have become increasingly complex and volatile. At Ciba, like most industry players, we have experienced ups and downs over the years. There were days, as you remember, when business seemed to be easy, or at least easier than today: We were unique in our product offerings, and competition was scarce. Ciba invented Ferrari red, became the largest distributor of laundry detergent whiteners and created the plastic additives business.

Today, the world obviously looks different, and the market dynamics have significantly changed. Over the last couple of years, we have seen major consolidation in many of our customer industries. In the plastics and the car industries, for example,

several large players have joined forces, building new entities with enormous buying power. On the other hand, small competitors are continually entering the market – smart players, often from Asia, with very different ways of doing business.

Competition from Asia has actually been and is increasingly one of the most important challenges we face. This competition has transformed the landscape in many markets and industries. However, for us it doesn't make sense to compete head on with all our rivals, be they from Asia or elsewhere. We rather focus on the battles we can win – and differentiate ourselves by developing knowledge-intensive solutions, creative applications and unique offerings that are difficult to imitate.

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Staying ahead through innovation, clever marketing and efficient processes is also the focus of the Operational Agenda, which we launched last year. The Operational Agenda includes five key initiatives: Innovation, Marketing & Sales, Lean Manufacturing, Geographical Footprint and harmonization of our systems and processes. Let me share with you some details.

As mentioned, our main means of turning the competitive tide are innovation and technology. That's what we are best known for in the chemical industry. When I talk to DuPont, Dow or BASF, I hear praise for Ciba's enormous power in innovation, technology and application know-how. We must, however, better leverage this competitive advantage.

Ciba continues to invest more than 4% of sales in R&D, which is above the industry average. In addition, we have an R&D venture fund, where we invest 15 million Swiss francs per year in high-risk, high-return projects. Our new clarifier for polypropylene products is one of the many products that began as a start-up project in this fund.

Extracting the most value from this investment and managing R&D more effectively is a key component of the Operational Agenda. In the future, the focus of our R&D efforts will be on fewer, but the most promising projects, and we will allocate our resources much more strictly according to future potential. We will continue to collaborate very closely with customers, particularly down the value chain, and strengthen our cooperation with external research partners.

We are, for example, a lead investor in the Pangaea Ventures Fund in the US, together with BASF and Solvay. We believe that this investment will strengthen our access to promising early-stage innovations while complementing our own R&D activities.

In the future, we will also leverage our research and technology expertise more effectively across the company and strengthen our innovation power in defined fields such as biotechnology and nanotechnology. Nanotechnology in general is considered one of the most important future technologies. The science of the small is about making and manipulating extremely tiny things: a nanometer is about 100,000 times smaller than a human hair.

Ciba plans to expand into the field of nanomaterials, which offer attractive opportunities for all our businesses. In coatings, nanoscale particles allow useful effects like long-lasting UV light protection and scratch resistance of clear coats without affecting transparency: the particles are simply too small to scatter visible light. Nanoscale pigments also have a wide range of high-tech applications, such as color

filters for LCD displays. On surfaces, new levels of durable water and stain repellency are possible, thanks to what's called the "lotus effect."

So nanotechnology is indeed an exciting future technology with great potential for Ciba.

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We also see good potential to improve profitable growth by effectively leveraging our excellence in marketing and sales – another Operational Agenda initiative.

Today's market dynamics are very demanding. Customers and competitors become increasingly diverse. And we deal with a fully transparent global marketplace, where we see all kinds of practices: from auctions to copycats, and pricing at totally unrealistic levels. The only way to stay ahead is to know more: knowing the customer in and out, stepping into his shoes and viewing the world from his perspective. For Ciba this means becoming more market-driven rather than primarily technology-driven as we used to be. We must anticipate our customer's problems – even before he does so himself.

It's our job to help customers differentiate. And by adding this kind of value we can also extract value.

Extracting value means making sure we are paid for the value we deliver. Not all customers are prepared to pay for the extras, so we manage our service levels accordingly. This means our marketing and sales people need not only to master the challenges at hand but also to understand their impact on the bottom line. We conduct comprehensive training in both these areas, always aiming to apply best practices across the company.

Our focus on profitability does not stop at the customer level. We also actively manage our product portfolio. As much as we need to rejuvenate the range with unique solutions, we also withdraw low- or non-performing products to optimize profitability. In Coating Effects, for example, we streamlined our portfolio by over 20% in 2006. And we continue to eliminate products which do not fulfill our profitability criteria. This is not only good business practice, but also very much in line with the Operational Agenda: taking out complexity while strengthening profitability.

A good example of how we pull together Ciba's strengths and knowledge is our marketing approach to the packaging industry. Packaging is a very important market for us, making up 17% of our overall sales. Our joint approach – especially down the value chain – helps us to understand market dynamics and has enabled us to establish a promising base at big brand houses such as L'Oreal, Nestlé or Coca-Cola. One of the most recent successes is the development of functional packaging for the food industry, where our oxygen scavengers help to extend shelf life.

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So much about innovation and marketing and sales. The Operational Agenda is certainly about driving growth, yes, but it is largely about improving efficiency and taking out costs. Let me now turn to our other three initiatives: Project Enterprise, Lean Manufacturing and Geographical Footprint.

With Project Enterprise, Ciba is harmonizing its global business processes. We are creating a single IT platform with consistent, transparent company-wide data handling. The system is based on SAP software and will allow seamless information flow from sales to production, also enabling lower inventories and greater purchasing efficiencies. Our business in the UK and Italy runs on the new system already, as does our global product lifecycle database. The rest of Europe will join in the next phase, closely followed by the Americas and Asia. Once we are on SAP in all key countries, we will be able to fully exploit the benefits of this integrated approach.

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Applying new processes is also key for our initiative Lean Manufacturing. The strong volume growth last year meant a further significant increase in output. In 2006 around 7,000 Ciba employees in 64 sites worldwide produced more than 1 million tons of product. Obviously, production is a very big cost block for Ciba.

With our initiative Lean Manufacturing, we are now optimizing our global production network, employing standardized processes while maintaining the highest EHS standards. Each site has received diagnostic tools to analyze the use of personnel, equipment and materials – highlighting areas of waste and duplication that could be eliminated. This means implementing some tough decisions, including headcount reductions. The so-called diagnostic phase has already taken place in 13 of our major sites and we are finding great potential, which we will turn into savings over the next three years.

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The fifth Operational Agenda initiative focuses on our geographical presence. The divestment of Textile Effects provided us with the opportunity to streamline our traditionally rather fragmented global presence. We are identifying the most effective routes to market for each business. Where possible, we are consolidating locations, legal entities and support functions. For example, in 2006 we closed our offices in Greece, Portugal and New Zealand, and we serve these countries now from other locations or through local distributors. While we will continue to streamline some local operations, we will remain a truly global player – also in the future.

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Continuously improving the way we work is of critical importance in all areas but particularly so in environment, health and safety.

EHS has always been at the heart of Ciba and will remain so. We are proud to report that in 2006, we successfully completed our three-year “0-10-10” program, aimed at 0 lost-time accidents, a 10% reduction in water used and a 10% reduction in CO<sub>2</sub> emissions. We had outstanding results in water use and CO<sub>2</sub> emissions. Unfortunately, we still had some lost-time accidents, but at least the trend was downward.

For the next four years, we have introduced new ambitious targets. The goal of 0 lost-time accidents remains and two new targets have been added: a 10% reduction in unused waste per ton of product and a 10% increase in the proportion of renewable energy used – very much in line with the current discussions on climate change. By 2010, 15% of the energy we use should come from renewable sources – a significant increase on the current 5%.

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Last but not least, let me comment on the new EU Chemicals Regulation REACH, which has been big in the media over recent weeks. REACH stands for Registration, Evaluation and Authorisation of Chemicals. Its regulations cover chemical substances that are manufactured in or imported into the EU in quantities above one ton per year – definitely a complex and demanding requirement.

However, Ciba has been actively involved in shaping the regulations for REACH since 1998. And we therefore have the expertise and capability to both comply and manage the implications of REACH. We consider REACH to be not simply a regulatory issue but an important business opportunity as well.

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Ladies and gentlemen, 2006 has been a demanding year of transformation for Ciba. We have achieved a great deal, but there is still a lot to be done. Our achievements have only been possible through the commitment of our people. And I would like to thank each and every one of them for their contribution and hard work.

2007 will not be easy, but I'm confident that we will master the challenges ahead of us. We are turning the corner and starting to see the results of our efforts kicking in.

Ciba is a strong company with a solid base, unique innovation and talented people. We will utilize this potential, drive profitable growth, improve our efficiency and shape our future.