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Documentation

Presentation by Brendan Cummins, Chief Executive Officer Ciba Annual General Meeting 2008

Sehr geehrte Aktionärinnen und Aktionäre, meine Damen und Herren

My view from this podium is not what it was one year ago. Not only because I address you for the first time as CEO of Ciba, but because our Company's position and prospects have changed in the last 12 months – and they have changed for the better.

Leading a company like Ciba into the future is a great privilege but also a great responsibility, and I am thankful to the members of the Board for their trust and to my colleagues on the Executive Committee for their support as I assume my new role.

The future will confront us with many challenges, to be sure, but it also holds tremendous promise and opportunity.

Before I share with you my vision of that future, ladies and gentlemen, I would like to review the Company's performance for 2007.

I will highlight our accomplishments as well as areas that need further improvement. 2007 was undoubtedly a demanding year for Ciba.

Our raw material costs reached record highs, and some of our customer industries came on hard times. Inevitably, these conditions had an impact on our financial performance in 2007. That we still managed to make progress convinces me that Ciba is on the right track.

The Operational Agenda is taking hold, helping us to fight higher costs with higher efficiency. It is also supporting our efforts to thrive in even the most competitive markets with focused innovation and excellence in marketing and sales.

Meanwhile, the differentiated strategy we are taking in our core businesses – Plastic Additives, Coating Effects and Water & Paper Treatment – has positioned us to make

the most of our strengths. All in all, we did a good job of managing our numbers in 2007.

Let's review the results in detail. In 2007, net income for the Group increased to 237 million Swiss Francs. Ciba's sales grew by 3 percent in Swiss francs and 2 percent in local currencies. Sales in Asia reached parity with the Americas for the first time. Growth was especially strong in China, at 10 percent in local currency, and in the Middle East and Africa, at 19 percent. Europe and the Americas showed a mixed picture, more or less matching the sales level of 2006.

As mentioned, the Operational Agenda was crucial in offsetting a steep rise in raw materials costs – which increased by 3 percent. For the year, the program delivered savings of more than 95 million Swiss Francs. This is considerably more than the originally expected 60-70 million, putting us well on track to improving our structure by 400-500 million Swiss Francs by 2009 over 2006.

In 2007 the total restructuring costs were 118 million Swiss Francs. Before restructuring, we increased our operating income by 4 percent relative to 2006 and improved our operating income margin to 8.5 percent of sales.

Profitability in Plastic Additives remained high at nearly 15 percent. Water & Paper Treatment steadily improved its operating income margin from quarter to quarter, delivering a full-year margin of 4.6 percent.

Coating Effects faced a slowdown in some of its customer industries, notably in automotive and construction in the US, as well as exceptionally high raw material costs. It also conducted targeted shutdowns in the last quarter to optimize production. Though these effects reduced its profitability relative to 2006, Coating Effects still contributed an EBIT margin close to 12 percent – fueled partly by a steady stream of new products which I will give two examples of in a moment. Ladies and gentlemen, those are Ciba's key financials for 2007.

Let me now give you a flavor for the innovations we've brought to the market recently. Leveraging our expertise in color, we entered the decorative cosmetics market with a full line of pigments that lend sparkling and pearlescent effects to cosmetics such as eye shadow and lipstick.

We also launched an innovative "laser-marking" technology where paper and packaging can be printed with sharp, stable images at the final stage of processing without the use of solvents. With our new range of conductive inks, electronic circuits can be printed on any surface enabling fast and cost-effective integration of electronics into many applications.

And our newest generation of time-temperature indicators allows consumers to check the freshness of meat, fish and convenience products at a glance.

These and other Ciba innovations have been well received not only in our customers' markets but in the market of ideas as well. In 2007, we were named Switzerland's "Best Innovator" for our broad-spectrum UV filters for sunscreens by the business

magazine Bilanz and A. T. Kearney. Together with a team at the Swiss Federal Institute of Technology, we received the prestigious Sandmeyer Prize for environmentally friendly and cost-effective methods of synthesizing photoinitiators.

Ciba launched its Operational Agenda in 2006 to turn such outstanding products and processes into equally outstanding business performance. The program reached the halfway mark by the end of last year.

Let me now review some progress as well as next steps: We have harmonized our business processes worldwide to increase the transparency and efficiency of our operations. These are being implemented using the SAP platform, which makes global operations much easier to monitor and manage. In this single, standardized system, customer orders can be handled in the same way in High Point, Huningue and Hong Kong, with up-to-date information about order status and alternative supply points just a mouse click away.

With Lean Manufacturing, we are raising the efficiency of our production sites and processes, by improving the use of equipment, streamlining the flow of material and standardizing the overall maintenance. By implementing these measures in our biggest sites we have already reduced production costs significantly. With more to come. Building on the experience in lean manufacturing, we are making "lean" an integral part of Ciba's culture.

The many changes Ciba has undergone in the past couple of years, especially following the sale of Textile Effects in 2006, have required us to adapt our geographical footprint to meet the requirements of our core businesses. In 2007, we closed a number of our legal entities and three significant production sites. We have, for example, consolidated most of our Group activities in Latin America and centralized our regional operations in Brazil.

As implementation of the three Operational Agenda tracks, focusing on efficiency, continues, the two aimed at increasing growth are now taking center stage: Marketing & Sales and Innovation.

Simply because, the days are gone when Ciba products practically sold themselves. Even with innovative chemicals, high-quality services and competitive prices, we have to be aggressive and creative in marketing and selling what we have to offer. We are therefore retraining our marketing and sales force on the most up-to-date tools and methodologies.

Actively managing our product portfolio is a crucial part of our efforts to grow profitably. Last year we discontinued the Atmer product range in Plastic Additives, braving a short-term dip in sales in favor of a higher long-term profitability. We have also shed about one-third of our products in Coating Effects over the last two years.

As Armin Meyer said, we will continue to invest about 4 percent of sales in Research & Development. How we organize and deploy our innovation resources, however, is about to change in a fundamental but exciting way.

We have designed a new approach that puts a clearer focus on areas where we can leverage our technological core competencies in: Protection and Stabilization, Color, Solid-Liquid Separation, Paper Strength and Coating, Interphase and Rheology and Polymerization and Curing Agents, which together generate about 95 percent of our sales. Each competency cuts across our business lines and even our segments. In the area of protection and stabilization, for example, we have solutions that mitigate the damaging effects of UV exposure on materials as diverse as your car's paint finish, the stadium seats at St. Jakob Stadium here in Basel as well as on our skin.

Since technologies don't respect organizational boundaries, we shouldn't either in our approach to innovation. In the coming months, we will therefore reconfigure our innovation organization. We will designate six research centers, each focused on a core technology and complemented by industry-focused application teams. Regional technical units will support customer needs on a global basis, while dedicated process innovation and development groups will sharpen our competitive edge in manufacturing.

To drive growth beyond our current technologies, we will also establish a New Growth Platform. This is where emerging competencies that today are often distributed across the Company will be combined and accelerated. Examples of such high-potential fields include biotechnology, nanotechnology and organic electronics.

In the world of business, ladies and gentlemen, it's not only products and technologies that have a lifecycle – so do geographies. If Europe and the United States are middle-aged, then Asia is a toddler. I've spent more than 20 years in Asia. And one lesson I learned from there is to never underestimate people's ability to grow and change with the world around them. This is as important for a company as it is for an individual. And Ciba is more than ready to grow and change with Asia.

The Asian economic "boom" – particularly China's – has become a cliché, but like most clichés, it holds too much truth to be ignored: The changes of recent years truly boggle the mind.

Imagine, there is about one car for every 30 people in China today – compare that with one car for every two people in Western Europe and North America. Then consider market forecasts indicating that by 2020 China's car ownership rate will double, or even triple. It's absolutely astounding. But: Ciba is well positioned to grow with the industries in Asia.

As we strive to exploit such promising opportunities, we shouldn't lose sight of one thing: Behind every financial figure, behind every product launch, behind every production line at Ciba stand our people. People who invest their ideas, expertise and passion to make Ciba more innovative, efficient and competitive. Without these 13,000 individuals – working together all over the world – Ciba would simply not be Ciba. Let me take a few minutes to put a human face on some of the facts and figures I have presented so far. What does the Operational Agenda mean in people terms?

Lean Manufacturing, it means our people have embraced the "lean" way of thinking, driving change forward themselves rather than awaiting directives from above. On

site visits, I have been struck by their enthusiasm and energy, which is helping the lean mindset take root not only in Ciba's manufacturing activities but in other areas as well.

In the implementation of SAP, it means our people have put in long hours and showed great flexibility, patience and – not least, with a project of this scale – good humor. I have been impressed by their commitment to making the new system work while keeping our daily operations running smoothly.

However, and we shouldn't forget, the Operational Agenda has also had a necessary but profound impact on our people. And I am acutely aware of this. It has led to job reductions and even site closures. Over the last two years, we have reduced our workforce by a total of 1,100 and further reductions of 700 to 900 positions are planned this year. Ciba does not take such measures lightly, and we are committed to following principles of fairness and social responsibility throughout the implementation of these initiatives.

Let me conclude with the outlook for our industry and for Ciba going forward. The specialty chemical industry is in a period of rapid transformation and further consolidation maybe expected. And: we want to be an active player in this process. At the same time, we expect every Ciba business to earn at least its cost of capital. Where this is not the case, we are taking steps to turn around the performance. If we don't see the possibility of a business meeting our financial expectations within an acceptable timeframe, we will not hesitate to consider an exit.

We will also put an aggressive emphasis on margin management. That's how we can have the biggest impact on our financial performance. We will maintain our cost reduction efforts and continue to selectively increase prices, or to apply volume growth strategies to gain market share where appropriate. Purchasing has a crucial role to play here as well, and our recent appointment of a Global Procurement Officer will help bundling our buying power.

We expect 2008 to be another demanding year for the specialty chemicals sector. The outlook for the global economy is uncertain and very fragile. We see an inevitable slower pace of industrial development. And raw material costs are expected to remain high. However, assuming no significant deterioration in business conditions, we aim to achieve a sustainable sales growth in local currencies in line with GDP as well as an increase in operating income of around 10 percent per year.

Ladies and gentlemen, these are ambitious targets, but with ongoing commitment and focused action, I am convinced they are within our reach.

Dear shareholders, the pace of change in the world continues to accelerate: in the markets, in technology and also in our industry. Change creates challenge for Ciba. But we are well equipped to meet these challenges with a clear strategy, a broad portfolio of competencies and a balanced global presence.

I thank you for your attention and for your continued support of our Company.