



Page 1 of 8

Basel, March 22, 2002

Documentation

Ciba Specialty Chemicals Annual General Meeting, 2002: Address by Armin Meyer, Chairman and CEO

Dear Shareholders:

In a challenging economic environment, Ciba Specialty Chemicals delivered a solid performance in 2001 and further improved its positioning for the future. Happily, this is also being recognized by the stock market. You will see on the chart that the share price of Ciba stock did significantly better in 2001 than the Swiss Market Index (SMI). Ciba was placed fourth among SMI companies in market performance. In addition, publicity concerning our solid performance in 2001 and particularly the positive trend in free cash flow caused the price of the stock to rise in the last few weeks; Ciba is definitely on the upswing!

I want to thank you, our shareholders, most sincerely for your trust and your support.

2001 was a year of many challenges. The economy slowed down appreciably, and our markets were particularly affected since they always react quickly to economic cycles. By the end of the year, we were facing a recession in almost every part of the world, but it was especially pronounced in the United States and in Germany.

We set the correct course at the beginning of last year by introducing a simplified corporate structure, and this paid off in the end. The resulting organization, consisting of business segments geared specifically to particular customer industries, was described in my address to you at last year's General Meeting. This structure has remained unchanged, since consistency is the only thing that will yield results. The key factor was that implementation was carried out extremely quickly. It was completed in only two months. This in turn allowed us to focus our full attention on the business and on our customers.

We followed four main initiatives in the course of last year:

First, as a result of the new structure, we were able to simplify processes and strengthen customer focus, and thereby lay the foundation for ***profitable growth***.

In the area of *innovation*, we appointed a Chief Technology Officer as a member of the Group management team. This officer is responsible for market-led research and development for the entire Group.

The third initiative focused on *employee* motivation. In my visits last year to the various Ciba plants, I personally met over 5,000 employees and was able to note that the simplified structure has had a very positive effect on work in general.

And fourthly, we have concentrated on generating *cash* and have therefore increased the company's financial flexibility – a very important element – and have created a good basis for future growth.

These four initiatives will also be the focus of our activities in the current year. In addition, however, we have also launched important projects in the area of efficiency improvement. One example is the integration of what were previously three separate supply chains into one single, coordinated, global supply system. The number of transport partners has been drastically reduced, purchasing offices for the different business segments in various regions have been combined, and the number of warehouses has been cut by almost one third.

In another project, we have substantially reduced costs in the Water & Paper Treatment Segment by introducing a number of radical measures, and as a result we have laid the foundation for a turnaround.

We have achieved several important goals in 2001:

1. *We were able to increase our market share.*

Although total sales declined as the result of a shrinking market and negative currency effects, we strengthened our market position in important areas. In this difficult period, our customers appreciated even more the added value and high quality for which our products and services are known. Because of our evenly balanced, global presence, we were able to participate in the growth that occurred in parts of Asia and Latin America.

2. *We were able to maintain profitability at a high level.*

The most important measure of profitability is earnings before interest, taxes, depreciation, and amortization (EBITDA). Without negative currency effects, EBITDA would have remained about the same as in the previous year. The EBITDA margin was 16.7 percent of sales. This puts us up among the leaders in our industry. Group income from continuing operations declined slightly by 9 percent. This result was only possible thanks to cost-reduction measures that were decided on and implemented early in the year, and these efforts are continuing. Of the announced staff reduction of 720 positions, over 600 positions have already been eliminated. Our program to reduce annual operating expenses by at least CHF 70 million by mid-2002 is well underway.

3. *We have increased free cash flow considerably.*

In difficult times, good companies are distinguished by a solid cash position. Therefore we introduced a pronounced focus on cash, which we are also maintaining in the current year. Our free cash flow in 2001 rose by 22 percent to

a record level of CHF 779 million. This was made possible not only by cost reductions but also by temporary production shutdowns that were initiated early in the year. This allowed us to reduce inventory by 10 percent.

4. *We improved our balance sheet significantly.*

Thanks to the high free cash flow, we were able again to drastically reduce our net debt. The strong cash position (over CHF 1.6 billion) increases our financial flexibility. Today, net debt as a percentage of net equity is again at a level of 60 percent, a satisfactory figure.

Because of the cost-cutting measures that were introduced early in the year, Ciba is well positioned for an upswing. Ciba will profit from the upturn at an early stage since our customer industries respond quickly to changes in the economic cycle. The flexibility described above will allow us to further strengthen our business by making targeted acquisitions.

The generally pleasing results for 2001 were only possible as a result of great commitment and motivation on the part of our 20,000 employees throughout the world. I would like to thank them most warmly in the name of the Board of Directors and certainly also in your name as well.

In the last few weeks and months, events such as the Swissair failure, the Enron debacle, the asbestos liability controversy, and severance payments to top executives have raised questions and led to uncertainty. This concerns the public, the media, politicians, you as stockholders, and also the members of our Board of Directors and the corporate executive team. Our top priority is to keep our own house in order. Our second priority, however, is to work together with other corporations and with the political sector to develop common solutions. It is important to win and to maintain people's trust.

By introducing US-GAAP in 1997, we committed ourselves to a transparent accounting system; we also identified risks and set up the appropriate provisions. For a chemical corporation like Ciba, this is also relevant for the environmental sector. In connection with environmental issues, I would like to report that our experts have not found any products that contain asbestos.

Corporate governance is not a new topic for Ciba Specialty Chemicals. In structuring our company, the Board of Directors was guided from the very beginning by the principles of modern business management and corporate governance, and since then it has continued to develop these principles further. Specialists from our company were also actively involved in developing the "Swiss Code of Best Practice", to which our company also adheres.

What are the structures and processes that safeguard a system of checks and balances in our organization? Six out of seven members of the Board of Directors are independent and have no ties to Ciba, and there are no interlocking Board memberships. Kurt Feller, an experienced business executive and Vice Chairman of

the Board, has the role of Lead Director. Under his leadership, the Board of Directors can hold meetings in the absence of the Chairman. Because of my role as Chairman of the Board and Chief Executive Officer, I am specifically not a member of either the Audit Committee or the Executive Compensation Committee. A performance review of the Board of Directors is carried out on an annual basis. In addition, the Vice Chairman reviews the Chairman's performance with each Director individually and then gives the Chairman an honest evaluation of the results.

We are also convinced that Ciba Specialty Chemicals maintains the necessary transparency as regards management salaries through its reporting in Document 20F, which is prepared for the Securities and Exchange Commission (SEC) in the U.S. Total compensation (including bonuses, stock, and stock options) for our 26 top executives is less than CHF 25 million and is, therefore, certainly within reasonable limits. In addition, we set ambitious goals for the company, and we base performance-related compensation strictly on achievement of those goals.

On this note, I would now like to turn to the future. What are our prospects and what are our goals for 2002 and beyond?

In the short term there are, as yet, no signs of a recovery for the first half of 2002. On the other hand, we can see the first signs of stabilization in several of our markets, albeit at a low level. After a weak December, sales in January and February picked up a bit. But, as we say in Switzerland, one swallow does not make a summer. In our outlook, we expect recessionary conditions to continue in the economy as a whole in the first quarter of 2002 and in all probability in the second quarter as well. We therefore expect sales and margins to be weaker in this period than in the comparable period of last year.

Nonetheless, for the full year 2002 Ciba expects the results, in terms of both sales and profits, to exceed those of the previous year. With the measures introduced early in 2001 to boost productivity, we have created a lower structural cost base. This will have a direct impact on the results in the event of a general economic upswing. Moreover, Ciba has set as a target for the entire year 2002 a free cash flow of over CHF 500 million. This outlook is based on the assumption that the economic conditions will improve in the second half of 2002 and that there will be reasonable exchange rate trends with respect to the Swiss franc.

So, moving on from our outlook for the current year, a year in which the economic skies are still overcast.

In 2001 the Board of Directors also defined goals for the medium term.

- First, average growth in sales of 6 percent in the years 2002 to 2005.
- Second, a further improvement in profitability to an EBITDA margin of 20 percent of sales by 2005.
- And third, a strong free cash flow totaling over CHF 1 billion in the year 2005.

These are ambitious goals, even in a more positive economic environment. But they are also realistic goals.

- We want to achieve internal organic growth of 3 to 4 percent and thus exceed market growth by at least 2 percent. The necessary products and initiatives are already defined. Acquisitions for the purpose of strengthening our business segments will also contribute to growth.
- This orientation towards profitable growth will contribute decisively to profitability. We value quality, not quantity. We focus on margins and not on volumes, and we continually renew and expand our product portfolio by introducing high-quality innovative products.
- With regard to free cash flow, we have shown that we have tight control of accounts receivable and inventories even when the market is sluggish.

The basis for achieving these medium-term goals is our strategic orientation. Our strategy has been developed and approved by the Board of Directors, working together with the Group Executive Committee.

We have developed a new vision, which will be our guiding principle. It reads: "We create effects to improve the quality of life".

With this vision, we want to express the fact that Ciba Specialty Chemicals is more than a chemical company. We build bridges between the latest research and everyday life. Therefore we want to improve the quality of life and create real value for our customers, our employees, and for you, our shareholders. We improve performance and color and enhance the safety and reliability of automobiles, clothing, packaging, home products, personal care products, and much more. We develop additives that give materials special properties and improve everyday products. In short: "We create effects to improve the quality of life".

A vision should not have only an inward orientation; it should also be effective externally. This applies especially to Switzerland, where we have our roots and our headquarters. Although we generate only one percent of sales in this country, we are a key contributor to the Swiss economy. Therefore we support, within the limits of our means, targeted efforts that promote Switzerland's good reputation and the dialogue between business, politics, and society. Together with Clariant, we support the project for Swiss young people called "14 to 19 – Shape your future" that has been promoted by Federal President Villiger in conjunction with Expo. 02. This project gives Swiss teenagers – the ambassadors for the Switzerland of tomorrow – the opportunity to develop their visions for Switzerland 20 years from now and to discuss these visions with politicians, business leaders, and scientists. I, personally, am looking forward very much to hearing their ideas and talking with them.

But back to Ciba's future. Our goal is to further improve our position as a leading company in specialty chemicals. The basis for this is a clear strategy, consistently implemented, based on five key elements.

First, we have a focused product portfolio, with five strong segments. Each of these sectors is a market leader or has a strong position in individual sub-markets.

Plastic Additives, the market leader in the plastics sector, is expanding its product range by adding additives for special effects.

Coating Effects is capitalizing on its leading position in the pigment and photoinitiator area in order to open up new markets with targeted innovative products.

Water & Paper Treatment, after carrying out extensive cost-reduction measures, is concentrating on geographic expansion in the water sector and on improving its leading position in the paper industry.

Textile Effects supplies its customers with integrated solutions in the area of dyes and chemicals based on a unique strategy.

Home & Personal Care is taking advantage of its strong customer relationships in the area of household and personal care products to introduce new products.

Second, Ciba Specialty Chemicals is intensifying its efforts in the area of innovation. Our company invests about CHF 300 million annually in research and development. A total of 1,600 individuals are employed in this area. Our Chief Technology Officer has been tasked with utilizing the synergies among the sectors in the technology area in order to increase research productivity. In addition, a research fund totaling CHF 10 million per year has been created to promote new, pioneering technologies. Seven projects that have extraordinary innovation potential and can profit from this fund have already been selected.

Third, Ciba has a balanced global presence with 36 percent of sales on the American continent, 37 percent in Europe, and 27 percent in the Asia-Pacific region. This global balance allows us to respond quickly to changes in the market. For example, when the textile industry relocates more and more of its activities from the U.S. to Asia, we can participate very quickly in these shifts thanks to our presence in both regions.

Fourth, we manage our business consistently based on three business models:

Specialties form about 60 percent of our portfolio.

Semi-specialties account for another 30 percent of sales.

Services form another of our business areas, one that is still small but growing rapidly.

In the area of specialties, which are generally protected by patents, we offer customers a very high utility value. Innovation and uniqueness are the factors that drive profitable growth in this area. Innovative new products in the electronics industry are one example.

In the area of semi-specialties, we make substantial contributions to cash flow and profits due to our unique market position, the lowest costs in the world, and global proximity to our customers.

In the service area, we utilize our expertise, which goes beyond the products themselves, to network with customers. For example, in the plastics sector we offer pre-blends that combine up to eight different additives in one product and therefore make the industrial process significantly easier for the customer.

Fifth, we strive for organic growth that is at least 2 percent higher than market growth and based on new innovations and services. In addition, we intend to strengthen one or more of our segments by making acquisitions. Our strategy does not involve entering totally new areas but rather expanding and complementing our existing market positions and technologies.

We have defined very clear conditions for implementing acquisitions in order to keep potential risks within reasonable limits. The acquisition prices that were common in our industry in the last four to five years are a thing of the past. Every acquisition must make a substantial contribution to profits in the second year at the latest.

This strategy will enable us to meet our future targets:

Ciba Specialty Chemicals is a global leader. We are determined to be number one in selected markets. And to be our customers' preferred partner. With innovative effects, we will enhance the quality and performance of their products.

We would like to take this opportunity to help you get to know your company a little better by considering a few examples. Following my address, Tim Schlange, Head of Home & Personal Care and a member of the Group Executive Committee, will make a presentation entitled "Effects Through Chemistry".

Pictures often say more than words. Therefore we will then show you in a video presentation two examples of how Ciba has achieved success through innovation and customer focus. Our Ciba® IRGAPHOR® dyes have been widely accepted by most manufacturers for the production of CDs. And our additives for motor oils are practically indispensable for companies that wish to comply with increasingly more stringent environmental regulations.

And now, some final remarks. With our lean customer-orientated organization, our strong portfolio and our clear strategy, we are in a good position to fully exploit the upswing expected during the course of this year. By continuing in 2002 our four initiatives for profitable growth, innovation, highly qualified workforce and cash, alongside a lower cost base and strong liquidity, we wish to further increase our profitability. Ciba Specialty Chemicals is, in this way, excellently equipped for the future.

I thank you for your attention.