Ciba Specialty Chemicals

Half-year report 2000

Ciba

- Sales rise 14 percent in Swiss francs; volume up 9 percent
- Strong improvements in operating income and cash flow; net income increases by 78 percent
- Sharpened strategic and market focus
- On track to meet EBITDA target of 16–17 percent of sales

Financial Highlights
(in millions of Swiss francs)

Six months ended June 30,	**2000**	1999	Change %
Net sales[1]	**4 005**	3 528	14
Operating income[1]	**464**	272	71
Income from continuing operations	**215**	73	196
Net income from discontinued operations, net of tax[2]	**0**	48	–
Net income	**215**	121	78
EBITDA[1][3]	**695**	494	41

(1) From continuing operations.
(2) On May 31, 2000, the Company completed the sale of its Performance Polymers business to Morgan Grenfell Private Equity.
(3) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income plus depreciation and amortization.

Dear Shareholders,
Ciba Specialty Chemicals is pleased to report a very successful half-year for January to June, 2000.

Sales grew by over 14 percent in Swiss francs compared to the first half of 1999. Net income increased by 78 percent, reaching CHF 215 million. Company operating income rose by 71 percent while the Company's EBITDA expanded to 17.4 percent of sales. These figures reflect the strong improvement which began in the second half of 1999 and indicate that the Company remains on course to meet its stated earnings targets for the year 2000.

These very satisfactory interim results are due to several factors: improved market and customer focus; innovative chemistry and applications expertise; and continuing cost reduction combined with selective strategic price increases. A generally positive business and currency environment helped advance our efforts. On the capital side, we maintained our focus on asset productivity, maximizing investment return, improving our balance sheet and fine-tuning our product portfolio.

Ciba Specialty Chemicals is on track towards its strategic goals in the global specialty chemicals industry. Despite an assumed softening in the global economy, we anticipate continued growth in the second half, although not as remarkable as in the first half of the year. We will keep building shareholder value through a strong portfolio and operational excellence. We therefore expect to achieve an EBITDA margin of 16–17 percent of sales for the full year, with correspondingly strong net profit and earnings per share.

Sharpening strategic focus
On May 31, 2000, we completed the sale of the Performance Polymers division to a new company – Vantico – established by Morgan Grenfell Private Equity, the private equity arm of Deutsche Bank Asset Management. We wish our former colleagues every success in their future endeavors.

This was the largest portfolio restructuring undertaken since Ciba Specialty Chemicals was itself spun off. We are now fully oriented toward the specialty chemicals industry, increasing our potential for profitable growth and improving our financial flexibility through lower debt levels and financing expenses.

Our strategy for the immediate future is to realize the full potential of our portfolio: improving operational efficiency while strengthening our market positions with above-market internally driven growth, selective acquisitions and partnerships.

Building shareholder value
Despite good results, our share price is disappointing – given our core skills, market reach and product range. The recent skew in equity markets towards new-technology stocks has depressed share values throughout our sector. I firmly believe that Specialty Chemicals is a viable, profitable industry. Ciba will continue to concentrate on steadily improving results while delivering ever-greater customer satisfaction, innovative products, processes and applications and operational efficiency.

We have broadened our shareholder base to improve the liquidity of our stock: from August 2, 2000, American Depository Shares ("ADSs") in Ciba Specialty Chemicals have been listed on the New York Stock Exchange where they will trade in U.S. dollars – allowing more investors in the U.S. to participate directly in the success of the Company.

Statement from the Chairman of the Board and Chief Executive Officer

Growing profitably through stronger market focus
Every business unit has tightened its customer and market focus, directing its strategies for marketing, sales and innovation – as well as technical service – to its specific end-user industries and applications. At the same time, company-wide resources are focused on five high-potential segments, with the aim to maximize profitable growth. These high-potential businesses now represent more than two-thirds of our total sales:

- *Polymer Additives*, where rapidly-growing plastics applications are replacing traditional materials in more and more industries.
- *Imaging and Coating Additives*, offering opportunities in solvent-free, environmentally-friendly solutions, powder coatings and UV-curing.
- *Water Treatments*, as markets comply with stricter regulation governing this scarce resource.
- *Colors for Inks, Paints and Plastics*, fulfilling demand for new industrial applications, environmental compatibility, high stability and brilliance.
- *Home and Personal Care*, building on growing world markets, particularly for UV-protection and cosmetics.

Recent landmark events demonstrate the Company's growth potential for the next six months and beyond:

The Polymer Additives unit has established another alliance with Uniqema (a member of the ICI Group) to distribute slip agents for polymers. The unit also acquired a line of inorganic oxygen absorbers from BP Amoco which enhance freshness in food packaging.

Ciba's Imaging and Coating Additives unit continues to see strong sales growth in its photoinitiators for the production of printed circuit boards – and is also making great inroads into the liquid-crystal display field. On March 14, 2000, it completed the purchase of Prochimica s.r.l., its key photoinitiator supplier: the largest photoinitiator plant in the world is now part of Ciba's portfolio. The combination of technical expertise and integrated manufacturing will strengthen our position and ensure consistent supply of high-quality materials.

A collaboration with Symyx Technologies using proprietary combinatorial chemical synthesis techniques will make possible thousands of experiments each day, rather than the traditional average of one or two – greatly speeding the development of successful new processes and reducing time-to-market.

The Water Treatments business unit produced clearly improved results from greater operational efficiency. A stronger strategic focus by key customer segment is beginning to bear fruit, raising the quality of the business. A new intermediates plant was successfully commissioned at our West Memphis site which will further strengthen our supply capacity.

The Colors for Inks, Paints and Plastics unit had a very favorable market response to its recently introduced high-value product ranges. The Optical Information Storage business, finding new applications for Ciba's core color competencies, continues to see high sales volume, driven by the global market for recordable CDs. On June 13, 2000, the Colors for Inks, Paints and Plastics unit's new plant in Newport, U.S., was inaugurated as the last part of an eight-year long CHF 180 million modernization program. It establishes the state of the art in responsible, low-impact production and is the world leader in the manufacture of quinacridone pigments.

Ciba's Home and Personal Care unit responded to strong competition in whiteners and antimicrobial agents with continued innovation and determined marketing. On May 3, 2000, the Company acquired a majority stake in Diamond Dye-Chem. Ltd. of Mumbai, creating a new market leader for whiteners in India and the Asia-Pacific region, and further strengthening Ciba's position as the global number one in the whiteners business. The business has also received approval in Europe for a new UV absorber for cosmetic applications which is used in sunscreens and offers safe and effective protection of the skin against both types of harmful ultraviolet radiation.

But not only these high-potential business units show exciting opportunities. The medium-potential business units are essential contributors to profit in smaller markets, while the selective-potential business focuses on generating cash flow to enable future growth and development of our overall portfolio.

Driving continuous innovation
Innovation remains the engine of Ciba's success. It is vital to keep up the pace at which new products, processes and applications reach the market – and gratifying to see a rising proportion of sales from internally developed innovation. We will continue to spend 3–4 percent of sales on R&D, accelerating new product introductions and reducing time to market.

To maintain our leading position requires Company-wide knowledge sharing. We have enhanced cross-division R&D consultation through a series of networks linking expertise across the Company, focusing on key technologies or application areas.

We have appointed a Chief Technology Officer ("CTO"), reporting directly to me. This newly-created position will serve to further strengthen technology management and improve returns from R&D investment. The CTO will also become chairman of the Research Council.

Making e-business a reality
The Internet is not a novelty for Ciba Specialty Chemicals; it is an efficient, cost-effective way to provide value-added products and excellent service to a diverse, global customer base. Ciba is determined to extract the greatest benefits from e-business: bringing the Internet into the center of each business unit; building a rich, productive customer interface; creating a seamless supply chain; and expanding our communication with our employees and the public.

Ciba has already built a global, integrated Information Management system; our processes are uniform and transparent. This allowed us swiftly to set up a single, consistent customer interface, providing services and information around the clock. For over a year, our Colors division has offered Internet ordering, order-tracking and documentation for pigments and dyes; 800 customers in 24 countries use this service. The principle of customer-tailored, individual business relationships built on a comprehensive e-business platform is now being developed across the Company.

Ciba Specialty Chemicals has also established an equity partnership with Elemica, an independent chemicals e-commerce market, and has joined with other e-business platforms, such as Yet2.com, for licensing and technology-related transactions.

The basis of success
The over 20,000 people of Ciba Specialty Chemicals serve customers in 120 countries – every day. To meet the needs of this diverse and sophisticated customer base, we are determined to attract, develop and retain the best talent. Our values emphasize innovation and operational excellence. Our employees should both understand and drive our culture, measuring their achievements against the best in the industry. We also take our responsibilities seriously: striving for reduction in the environmental and safety impact of our products and processes and investing in the welfare and development of our people.

On behalf of the Board of Directors, I thank our employees for their effort, enthusiasm and initiative; our shareholders for their continuing support; and our customers, whose needs drive us on into a new millennium.

Rolf A. Meyer
Chairman of the Board
and Chief Executive Officer

Financial Review

Overview

Ciba Specialty Chemicals' sales between January 1, 2000 and June 30, 2000 rose 14 percent in Swiss francs ("CHF"), or 5 percent in local currencies, to CHF 4.005 billion. Compared to the second half of 1999, sales increased by 8 percent in Swiss francs. Sales growth was recorded in all divisions and in all regions. Net income grew by 78 percent to CHF 215 million and operating income increased by 71 percent, to CHF 464 million, reflecting strong sales growth coupled with the benefits of continuing process improvements and cost controls.

The positive trend observed in the fourth quarter of 1999 has been confirmed in the first and second quarters of 2000. During the first half of 2000, the business realignments that were made to form the Colors division continued to improve results. The business unit Water Treatments also made a substantial recovery.

In addition, the divestment of the Performance Polymers business was successfully completed on May 31, 2000.

Current trends and forecasts for the development of both the global economy and our end-user markets call for continued growth in the second half of 2000, however at a somewhat more moderate rate than experienced in the first half of 2000. Provided the current global economic trends continue, the Company expects to meet its forecast for the year of an EBITDA margin of between 16 percent and 17 percent of sales, with correspondingly strong increases in net profit and earnings per share.

Comparability

Comparisons between the first half of 2000 and prior published data need to take the following items into consideration:

- The Performance Polymers division's results have been treated as "discontinued operations" due to its sale on May 31, 2000. Prior year data have been adjusted accordingly.
- The Company listed its American Depository Shares ("ADSs") on the New York Stock Exchange ("NYSE") on August 2, 2000. As part of the normal review process, the United States Securities and Exchange Commission ("SEC") required certain adjustments and reclassifications in the Company's accounts. Most of the adjustments affect only 1997 and 1998 and are described further in the notes to the financial statements. In addition, a reclassification between interest expense and compensation expenses relating to the accounting for the interest portion of pension costs for unfunded pension plans was made and applies to all reporting periods. The reclassified costs amount to CHF 14 million for the first half-year of 2000 and CHF 13 million for the first half-year of 1999. While this has no impact on net income, Division and Company EBIT*, EBITDA and economic profit have been adjusted compared to previously published reports. All previous years' data have been restated accordingly.
- There was a substantial difference in business performance between the first and second half-years of 1999. The first half-year of 1999 was weaker, particularly in the first quarter. There was a substantial improvement in overall business conditions in the second half of 1999, which continued into 2000. In addition, currency exchange rates were significantly more favorable in the first half of 2000 than during the first half of 1999. Therefore, comparisons of the first half of 2000 with the first half of 1999 reflect this positive "base" effect. This base effect will not recur in the second half of 2000, so it should therefore not be expected that growth rates for the full year – compared with full-year 1999 – can match the very strong first-half 2000 growth rates.

Divestment of the Performance Polymers business

The Company completed the sale of the Performance Polymers business on May 31, 2000 to Vantico, a new company established by Morgan Grenfell Private Equity, the private equity arm of Deutsche Bank Asset Management. This sale focuses the Company's portfolio on higher-margin specialty chemicals products. The total gross proceeds from the sale of the division to Morgan Grenfell Private Equity and Asian joint venture partners amounted to CHF 1.6 billion. The Company, in the half-year 2000 results, has not recorded a gain or a loss on the divestment of the Performance Polymers business. After taking into consideration the proceeds, the Performance Polymers business operating income after taxes, the preliminary estimates for the cost of selling the business and the transaction related taxes, the Company currently estimates that it will break-even, or record a small gain, on the divestment.

* Earnings Before Interest and Taxes (operating income).

Detailed Half-Year Results

Sales

The Company's first half-year sales grew 14 percent in Swiss francs over previous year's sales, or 5 percent in local currencies, to a total of CHF 4.005 billion. Even when comparing the sales to the already improved performance in the second half of 1999, sales rose 8 percent in Swiss francs. Average foreign exchange rates in comparison to the Swiss franc resulted in a favorable currency impact of 8 percent. Volume increases outpaced price reductions in all divisions. Overall, volume rose 9 percent. On average, prices were 3 percent lower. This decline reflects both competitive conditions in certain markets as well as a secondary effect from exchange rate fluctuations. For example, customers located in strong currency regions, such as the United States, who purchase products manufactured in weaker currency regions, such as the Euro region, are demanding a share of the suppliers' currency gains in the form of reduced prices. The secondary effects of exchange rate fluctuations mean that some, but not necessarily all of the benefits resulting from a cost base located in a region with a weaker currency can be retained by the supplier, as part of this benefit may be passed on to the customers. Meanwhile, the Company began a series of selective price increases during the second half of 1999, which have begun to take effect. The Company has seen a slowdown of price erosion between the first quarter of 2000 and the second quarter of 2000.

Sales in the first half of 2000 improved strongly in all three regions. Sales in the Eastern Hemisphere increased 22 percent in Swiss francs, or 9 percent in local currencies; the Western Hemisphere saw a 16 percent rise in sales in Swiss francs, or a 3 percent increase in local currencies; and sales in Europe rose 7 percent in Swiss francs, or 5 percent in local currencies. In local currencies, particularly strong increases were seen in the China Region, South East Asia and South America. Sales in Japan fell due to the country's continuing difficult economic circumstances. In the United States, sales remained stable at a high level. The strong British Pound led to a weakening of demand in the UK. Performance in the rest of Europe was mixed.

Operating Income

Operating income increased by 71 percent in Swiss francs, or 37 percent in local currencies, to a total of CHF 464 million. EBITDA totaled CHF 695 million, reaching 17.4 percent of sales. This reflects the impact of higher sales driven by strong volume growth. Gross profit margins improved due to stable raw material costs coupled with the benefits of operational improvements in production and supply chain processes initiated in recent years. While selling, general and administrative costs increased in Swiss franc terms by CHF 57 million, they remained stable in local currencies despite continuing investment in new business development. Expressed as a percentage of sales, selling general and administration costs decreased from 19.4 percent to 18.5 percent. This evidences the positive results of ongoing process improvement and cost control.

Interest Expenses

Interest expenses declined 10 percent during the first half of 2000 as compared to the previous year as the amount of short-term debt declined substantially. Overall, movements in interest rates did not have a significant impact, since the majority of long-term debt is based on fixed interest rates.

Net Income

For the first half of 2000, net income of Ciba Specialty Chemicals increased by 78 percent to CHF 215 million resulting in earnings per share of CHF 3.24 compared to CHF 1.82 in the first half-year of 1999.

As the divestment of the Performance Polymers business only occurred on May 31, 2000, computations of the respective costs associated with the divestment are not yet complete. Currently, net income from discontinued operations (the former Performance Polymers business) is estimated at zero.

Excluding discontinued operations in both years, net income rose by 196 percent.

Balance Sheet

Despite the increase in sales, receivables and inventory levels could be held at similar levels as compared to both the year-end 1999 and the first half-year of 1999. This is due to strong current asset management, particularly in the Colors division. Accrued liabilities increased sharply due to expected tax and separation cost effects in the context of the sale of the Performance Polymers business.

The major reason for the increase in cash and cash equivalents and for the reduction in short-term debt was the Performance Polymers transaction. In a first step, short-term debt is being reduced. The remaining cash surplus will be used to further reduce interest costs.

Cash Flow

Cash provided by operating activities in the first half-year of 2000 amounted to CHF 344 million compared to CHF 117 million in the prior year, mainly due to improved business results and to reduced restructuring payments.

Cash provided by investing activities was CHF 1.288 billion, which primarily relates to the proceeds from the divestment of Performance Polymers offset by capital expenditures and minor acquisitions. Among the acquisitions was the purchase of Prochimica s.r.l., the key photoinitiator supplier for the Imaging and Coating Additives business, for CHF 85 million. Capital expenditures of CHF 96 million were below the prior year's levels (CHF 128 million), which is in line with the Company's initiative to reduce costs and to focus investments on process improvements.

Cash used for financing activities reflects the first steps of repayment of debt following the divestment of the Performance Polymers business.

Excluding the effects of the divestment of the Performance Polymers division, the Company provided CHF 343 million by operating activities and used CHF 194 million for investing activities.

Divisional Results

Additives *(excluding Water Treatments)*

Additives, excluding the Water Treatments business unit, recorded sales of CHF 1.341 billion, up 15 percent in Swiss francs, or 6 percent in local currencies. The division recorded a strong volume increase with moderate price declines. In line with the strategy announced during the second half of 1999, the division has continued to implement selective price increases including recent announcements involving process and light stabilizers. As a result, sales price erosion is continuing to slow. Particularly strong sales increases were made in Swiss francs and in local currencies in the China Region, South East Asia, Central America, South America and Germany. Sales in both the Polymer Additives and Imaging and Coating Additives businesses increased by double-digits in Swiss francs and by solid single-digits in local currencies. Process and Lubricant Additives saw a strong double-digit increase in both Swiss francs and local currencies.

Operating income, at CHF 257 million, improved to 19.2 percent of sales and EBITDA, at CHF 325 million, improved to 24.3 percent of sales. This result reflects higher sales, slightly improved margins and continuing operational efficiency. This performance is toward the top end of the range of normal performance levels expected in the division.

Water Treatments
Sales for the Water Treatments business unit increased 9 percent in Swiss francs, or 1 percent in local currencies, to total CHF 550 million. Volume increased and outpaced price decreases which were caused in large part by the secondary effect of the strong British Pound. On June 30, 2000 a 6 percent price increase was announced for several key monomer intermediates used in a range of coatings, adhesives and plastics. Strong sales increases in Swiss francs and in local currencies were seen in the China Region, South Korea, Indonesia, Canada, South America, Italy and South Africa. Double-digit sales increases in Swiss francs were recorded in the businesses Paper Technology, Extractive Industries, Performance Intermediates and Soil Additives. Pollution Control increased sales in Swiss francs in a difficult trading environment.

The extensive re-organization programs introduced in the first half-year of 1999 continue to show positive results. Operating income improved to CHF 44 million for the first half of 2000, compared to CHF 33 million for the second half of 1999 (a 32 percent improvement) and compared to CHF 17 million for the first half of 1999 (a 160 percent improvement). Operating income improved to 8.0 percent of sales and EBITDA, at CHF 72 million, improved to 13.1 percent of sales. This result reflects higher sales coupled with reduced operating costs. The Water Treatments business unit supply chain is currently being merged with the Additives division supply chain. This integration will further improve efficiency through the sharing of infrastructure and skills.

Colors
The Colors division recorded sales of CHF 1.355 billion, an increase of 16 percent in Swiss francs, or 8 percent in local currencies. The division recorded a very strong volume growth and moderate price declines. Sales were up strongly in Swiss francs and in local currencies in the China Region, South East Asia, Canada, Central America, South America and several European countries. The Inks, Paints and Plastics business increased sales by double-digits in both Swiss francs and local currencies while Colors for Textiles had a double-digit increase in Swiss francs and a solid single-digit increase in local currencies.

Operating income, at CHF 161 million, improved to 11.9 percent of sales. EBITDA totaled CHF 226 million, or 16.7 percent of sales. This improvement reflects higher sales, driven by improving overall market conditions and growing market share, both in inks, paints and plastics and in textile dyes. In addition, the full synergy benefits of the Colors reorganization and process improvement initiatives helped support the profitability growth.

Consumer Care
Sales for the Consumer Care division increased 11 percent in Swiss francs, or 3 percent in local currencies, to total CHF 759 million. Volume growth was good and there was a moderate decline in prices. The division recorded strong sales in Swiss francs and in local currencies in Brazil, Canada, the China Region, and South East Asia. The Paper Chemicals business increased sales by double-digits in both Swiss francs and local currencies. Textile Chemicals posted a double-digit sales increase in Swiss francs and a solid single-digit increase in local currencies. The Home and Personal Care business faced difficult conditions due to the effects of intense price competition among key detergent manufacturers. In addition, increased competition in antimicrobials was noted. Specialty products for home and personal care markets continued to enjoy strong double-digit growth. On balance, the Home and Personal Care business increased sales in Swiss francs, but saw lower sales in local currencies.

Consumer Care's operating income rose to CHF 88 million for the first six months of 2000, or 11.6 percent of sales. EBITDA, which totaled CHF 115 million, increased to 15.1 percent of sales. Despite the more challenging sales conditions and proactive investments in new business development, the division managed a substantial improvement in its results.

Outlook
The Company is on track for its strategic goals as an innovative market leader in the global specialty chemicals industry. All indications point to continued economic and market growth in the second half of 2000, although at a somewhat more moderate rate than that seen in the first half. A slight weakening of average foreign currency exchange rates is also anticipated through the remainder of the year. Should current global economic and market trends continue – including a gradual moderation of the growth rate in the United States (the so-called "soft landing" scenario), a continuing recovery in Europe and maintained stability in Asia – the Company expects an increase in its EBITDA for the full year to between 16 percent and 17 percent of sales, with a correspondingly strong rise in net profit and earnings per share.

Forward-Looking Statements
Forward-looking statements contained herein are qualified in their entirety as there are certain important factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed above, among the factors that could cause actual results to differ materially are the following: the timing and strength of new product offerings; pricing strategies of competitors; the Company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; and changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

Consolidated Statements of Income (unaudited)
(in millions of Swiss francs, except share and per share data)

Six months ended June 30,	Notes	2000	1999
Net sales		**4 005**	3 528
Cost of goods sold		**2 649**	2 424
Gross profit		**1 356**	1 104
Selling, general and administrative		**740**	683
Research and development		**142**	132
Amortization of goodwill		**42**	36
Income from earnings of equity affiliates		**(32)**	(19)
Operating income		**464**	272
Interest expense		**(136)**	(151)
Interest income		**18**	14
Other financial expense		**(22)**	(20)
Minority interest		**(4)**	(2)
Income from continuing operations before income taxes		**320**	113
Provision for income taxes		**105**	40
Income from continuing operations		**215**	73
Net income from discontinued operations, net of tax	2	**0**	48
Net income		**215**	121
Per share data:	6		
Basic earnings per share			
Continuing operations		**3.24**	1.09
Discontinued operations		**0.00**	0.73
Net income		**3.24**	1.82
Diluted earnings per share			
Continuing operations		**3.24**	1.09
Discontinued operations		**0.00**	0.73
Net income		**3.24**	1.82
Weighted average shares outstanding:			
Basic		**66 389 659**	66 453 717
Diluted		**66 389 659**	66 457 979

See Notes to Condensed Consolidated Financial Statements

Consolidated Balance Sheets

(in millions of Swiss francs, except share and per share data)

	Notes	(unaudited) June 30 2000	December 31 1999
Assets			
Current assets			
Cash and cash equivalents		**1 141**	413
Short-term investments		**39**	58
Accounts receivable, net of allowances		**1 296**	1 241
Inventories	3	**1 740**	1 660
Prepaid and other current assets		**699**	574
Net current assets of discontinued operations	2	**0**	326
Total current assets		**4 915**	4 272
Property, plant and equipment, net		**3 846**	3 914
Goodwill and other intangible assets, net		**2 265**	2 292
Financial investments	5	**517**	553
Other assets		**786**	788
Net long-term assets of discontinued operations	2	**0**	588
Total assets		**12 329**	12 407
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable		**570**	561
Short-term debt		**482**	1 174
Income taxes payable		**81**	55
Accruals and other current liabilities		**1 423**	821
Total current liabilities		**2 556**	2 611
Long-term debt		**4 252**	4 265
Deferred income taxes		**350**	321
Other liabilities		**1 524**	1 514
Minority interest		**51**	58
Total liabilities		**8 733**	8 769
Shareholders' equity	5		
Common stock, par value CHF 10 per share – 82 130 117 shares authorized and 72 130 117 issued at June 30, 2000 and December 31, 1999		**721**	721
Additional paid-in capital		**3 951**	3 941
Retained earnings		**(561)**	(642)
Accumulated other comprehensive income	7	**(61)**	60
Treasury stock, at cost (June 30, 2000 – 5 786 434 shares; December 31, 1999 – 5 675 119 shares)		**(454)**	(442)
Total shareholders' equity		**3 596**	3 638
Total liabilities and shareholders' equity		**12 329**	12 407

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Cash Flow (unaudited)

(in millions of Swiss francs, except share and per share data)

Six months ended June 30,	2000	1999
Cash flows from continuing operating activities before restructuring payments[1]	**352**	168
Cash used for restructuring payments	**(9)**	(112)
Net cash provided by operating activities of discontinued operations	**1**	61
Net cash provided by operating activities	**344**	117
Cash flows used in investing activities, continuing operations[2][3]	**(100)**	(100)
Sale (acquisition) of businesses, net of cash[4]	**1 392**	69
Cash flow used in investing activities, discontinued operations	**(4)**	(14)
Net cash provided by (used in) investing activities	**1 288**	(45)
Cash used in financing activities[5]	**(884)**	(51)
Effect of exchange rate changes on cash and cash equivalents	**(20)**	19
Net increase in cash and cash equivalents	**728**	40
Cash and cash equivalents, beginning of year	**413**	206
Cash and cash equivalents, end of June	**1 141**	246

[1] Depreciation and amortization during the first six months of 2000 amounted to CHF 231 million (first six months 1999: CHF 223 million).
[2] Investments in property, plant and equipment during the first six months of 2000 amounted to CHF 96 million (first six months 1999: CHF 128 million).
[3] Excludes sales (acquisition) of businesses, net of cash.
[4] Sale (acquisition) of businesses, net of cash includes primarily the use of cash for the acquisition of Prochimica s.r.l. and the net proceeds through June 30, 2000, from the sale of the Performance Polymers business. The major cash payments for the cost of selling the business and for transaction related taxes have not yet been incurred. These cash payments are expected to be incurred during the second half of 2000.
[5] Includes, for the six months ended June 30, 2000 and 1999, cash dividends declared and paid of CHF 133 million (CHF 2.00 per share).

See Notes to Condensed Consolidated Financial Statements

Condensed Business Segment Data (unaudited)

(in millions of Swiss francs, except share and per share data)

Six months ended June 30,	2000	1999
Net sales		
Additives	**1 891**	1 670
Additives (excluding Water Treatments)	***1 341***	*1 167*
Water Treatments	***550***	*503*
Colors	**1 355**	1 172
Consumer Care	**759**	686
Total net sales	**4 005**	3 528
Operating income (EBIT)		
Additives	**301**	207
Additives (excluding Water Treatments)	***257***	*190*
Water Treatments	***44***	*17*
Colors	**161**	91
Consumer Care	**88**	61
Corporate and other expenses	**(86)**	(87)
Total operating income (EBIT)	**464**	272
EBITDA[1]		
Additives	**397**	300
Additives (excluding Water Treatments)	***325***	*252*
Water Treatments	***72***	*48*
Colors	**226**	152
Consumer Care	**115**	88
Corporate	**(43)**	(46)
Total EBITDA[1]	**695**	494

[1] EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is calculated as operating income plus depreciation and amortization.

As of June 30, 2000, the Company had three reportable segments: Additives, Colors and Consumer Care. On May 31, 2000, the Company completed the sale of its Performance Polymers business and therefore, excluded it from the segment data (see Note 2). The Company's reportable segments are divisions that develop, manufacture and market different products and services. They are managed separately because each division requires different technology and marketing strategies. The same accounting policies are consistently applied across the Company. The Company evaluates the performance of its reportable segments based on operating income before restructuring and special charges, corporate related items, and certain other net expenses not allocated to reportable segments. All intersegment sales between subsidiaries are based on market price. Beginning in 2000, the Company recorded a reclassification between interest expense and compensation expense relating to the classification of the interest portion of pension costs for unfunded plans. While this reclassification has no impact on net income of the Company, division and total Company EBIT and EBITDA have been adjusted. Amounts reported for the previous periods have been reclassified to conform to the 2000 presentation.

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements (unaudited)

(in millions of Swiss francs, except share and per share data)

1. Basis of presentation

These condensed consolidated financial statements have been prepared from the unaudited records of Ciba Specialty Chemicals Holding Inc. and its subsidiaries (the "Company") in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and accordingly, do not include all information and footnotes required by U.S. GAAP for complete financial statements. For further information refer to the Notes to Consolidated Financial Statements included in the Financial Review of the 1999 Annual Report. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the consolidated statements of income, balance sheets and condensed cash flows for the interim periods presented. Beginning in 2000, interest expense related to the Company's unfunded pension plans in Germany, which was previously recorded in interest expense, is included as a component of operating income. Amounts reported for previous periods have been reclassified to conform to the 2000 presentation.

2. Acquisitions and divestitures

Divestment of Performance Polymers business

In December 1999, the Company signed an agreement under which Morgan Grenfell Private Equity, the private equity arm of Deutsche Bank AG, agreed to buy the Performance Polymers business for cash and the assumption of debt. The agreement was amended on May 20, 2000, and the transaction was completed on May 31, 2000. The total gross proceeds from the sale of the Performance Polymers division to Morgan Grenfell Private Equity and Asian joint venture partners amounted to approximately CHF 1.6 billion.

The Company, in the half-year 2000 results, has not recorded a gain or a loss on the sale of the Performance Polymers business even though the Performance Polymers business produced income from operations until its sale. Currently, the Company is concluding the closing balance sheet audit and estimation of exit and separation costs, including transaction taxes. The finalization of the audit and the estimates, which are likely to require several more months, are necessary for the final determination of any gain or loss on the sale of the Performance Polymers business. The Company does not expect that the net income from discontinued operations will result in a loss.

The elimination of the net assets of discontinued operations at June 30, 2000, in the accompanying Consolidated Balance Sheets, reflects the sale of the Performance Polymers business on May 31, 2000.

Purchase of Prochimica s.r.l.

In March 2000, the Company announced the completion of its purchase of Prochimica s.r.l., the Company's key photoinitiator supplier. The Company paid CHF 85 million and accounted for the acquisition under the purchase method of accounting.

3. Inventories

	(unaudited) June 30 2000	December 31 1999
Raw materials	**243**	208
Work in process and finished goods	**1 572**	1 530
Allowance for obsolete and slow moving inventory	**(75)**	(78)
Total	**1 740**	1 660

4. Restructuring

The remaining restructuring accrual at June 30, 2000 and 1999, is for the completion of the 1998 restructuring programs. These programs were related to the strategic realignment of the Company's business which included the formation of the Colors division from the former Pigments and Textile Dyes divisions and the integration of Water Treatments into Additives division. Severance costs relate to the elimination of approximately 450 full-time equivalents ("FTEs"), of which 325 FTEs have been terminated as of June 30, 2000. The positions eliminated were in various locations of the Company's worldwide operations principally in the administration, sales and marketing functions. The remaining terminations are expected to be completed and to become effective by the end of 2000. Management believes that the remaining restructuring provision is sufficient to enable the completion of these programs.

The costs and activities associated with the restructuring accruals are summarized in the following table:

2000	Severance costs	Other costs	Total
Balance at January 1, 2000	**35**	**9**	**44**
Amounts utilized[1]	**(10)**	**(5)**	**(15)**
Balance at June 30, 2000	**25**	**4**	**29**

1999	Severance costs	Other costs	Total
Balance at January 1, 1999	120	68	188
Amounts utilized[1]	(57)	(40)	(97)
Balance at June 30, 1999	63	28	91

[1] Includes currency adjustments.

5. Spin-off opening balance sheet restatement

On December 20, 1996, Novartis AG ("Novartis") was formed as a result of the merger of Sandoz Limited ("Sandoz") and Ciba-Geigy Limited ("Ciba-Geigy"). Under International Accounting Standards ("IAS"), Novartis accounted for the merger as a uniting of interests. Under U.S. GAAP, Accounting Principles Opinion Board No. 16, Business Combinations, ("APB 16") the transaction would be accounted for as a purchase by Sandoz of Ciba-Geigy. APB 16 requires that the individual assets and liabilities of an acquired company (Ciba-Geigy) be recorded at their fair values as of the acquisition date by the acquirer (Sandoz). Because the Company (Ciba Specialty Chemicals) was part of Ciba-Geigy prior to the

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merger, the assets and liabilities of the Company as of January 1, 1997, were recorded at amounts that approximated fair values as of December 20, 1996.

As part of the listing of the Company's shares on the New York Stock Exchange, the Securities and Exchange Commission ("SEC") reviewed the Company's accounts and it was determined that the Company's investment in its equity affiliate Hexcel Corporation ("Hexcel") was recorded at a lower value than the value that would have been recorded by the acquirer (Sandoz) under APB 16. Applying the SEC push down accounting rules, the Company restated its January 1, 1997 opening balance sheet to reflect the difference between the original asset value contributed by Novartis and the fair market value of Hexcel as of the merger date between Sandoz and Ciba-Geigy. The restatement was recorded as an increase in financial investments and an increase in additional paid-in capital by the same amount of approximately CHF 212 million. After this restatement, the Company then updated its review for impairment that was made by management in 1998 and 1999. Management determined that the value of the Hexcel investment at the end of 1998 was impaired and recorded in the 1998 accounts, under the caption restructuring and special charges, an impairment loss of CHF 234 million, reflecting the write-down of the investment from its then carrying value of CHF 442 million to its fair value of CHF 208 million as of December 31, 1998. Management judged the reduction in fair value of the investment below its then carrying value to be permanent in nature. This judgment was based on structural changes in the aerospace and defense industry. This adjustment does not affect the net income of either the first half of 2000 or the first half of 1999.

6. Earnings per share

The following table presents the calculation of basic and diluted earnings per share:

Six months ended June 30,	**2000**	1999
Income from continuing operations	**215**	73
Income from discontinued operations	**0**	48
Net income	**215**	121
Weighted average shares outstanding:		
Basic	**66 389 659**	66 453 717
Add incremental shares from stock option plans	**0**	4 262
Diluted	**66 389 659**	66 457 979
Basic earnings per share:		
Continuing operations	**3.24**	1.09
Discontinued operations	**0.00**	0.73
Net income	**3.24**	1.82
Diluted earnings per share:		
Continuing operations	**3.24**	1.09
Discontinued operations	**0.00**	0.73
Net income	**3.24**	1.82

For the six months ended June 30, 2000 and 1999, the calculation of diluted earnings per share excluded the assumed conversion of the 1.25% convertible bonds, issued July 1998, due 2003, as their inclusion would have been antidilutive. For the six months ended June 30, 2000, the calculation of diluted earnings per share excluded 1 073 975 weighted average number of stock options outstanding (June 30, 1999: 418 253 stock options) with exercise prices between CHF 108 and CHF 183 (June 30, 1999: between CHF 165 and CHF 183) as their exercise prices were greater than the average market price of the common shares for the six month period.

7. Comprehensive income

The components of comprehensive income for the six month period ended June 30, 2000 and 1999 are as follows:

Six months ended June 30,	**2000**	1999
Net income	**215**	121
Currency translation adjustment	**(122)**	97
Unrealized loss on available-for-sale securities, net of tax	**0**	(6)
Realization of previously unrealized loss on available-for-sale securities, net of tax	**1**	0
Total comprehensive income	**94**	212

The components of other accumulated comprehensive income as of June 30, 2000 are as follows:

Other accumulated comprehensive income at December 31, 1999	**60**
Currency translation adjustment	**(122)**
Realization of previously unrealized loss on available-for-sale securities, net of tax	**1**
Other accumulated comprehensive income at June 30, 2000	**(61)**

8. Contingencies

Contingencies

The Company operates in countries where political, economic, social, and legal developments could have an impact on the operational activities. The effects of such risks on the Company's results, which arise during the normal course of business, are not foreseeable and are therefore not included in the accompanying condensed consolidated financial statements.

In the ordinary course of business, the Company is involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental, and health and safety matters. There are no such matters pending that the Company expects to be material in relation to the Company's business, financial position or results of operations.

Taxes

Pursuant to the spin-off, the Company and Novartis reached certain agreements with the Swiss authorities concerning income and transaction related taxes, including stamp duties. Changes in control of the Company, larger concentrations of third-party voting rights or sale of material parts of the business within the next few years could trigger retroactive tax charges to the Company.

The German tax authorities have completed the tax audit of the Company's operations in Grenzach, Germany for the period from

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1989 to 1995, including the opening 1996 tax balance sheet of the Grenzach company as result of the spin-off from Novartis. The German tax authorities have made a substantial tax adjustment. In accordance with the Master Spin-off Agreement with Novartis and with Swiss commercial law, the Company is of the opinion that the total liabilities owed are the responsibility of Novartis. Management believes the ultimate outcome of this matter will not have a material adverse effect on the financial position or overall trend in results of the operations of the Company.

Environmental

The chemical industry is subject to stringent environmental, health and safety laws and regulations. A number of increasingly stringent regulations govern the manufacturing processes used and the waste and emissions created by the Company in all of its jurisdictions in which it does business and will create significant ongoing costs for the Company. It is the Company's policy to continuously develop and improve the environmental performance of key manufacturing processes and products through an assertive program to address environmental matters. In addition to process improvements, advanced waste treatment and disposal facilities have been commissioned at all major manufacturing sites that allow the sites to comply with recently issued laws and regulations applicable to waste streams. Management believes that the Company substantially complies with all such laws.

At the time of the Company's spin-off from Novartis, Novartis agreed to reimburse the Company 50% of United States environmental liabilities in excess of reserves established at the time of the spin-off arising from past operations of the Company. Outside the United States, environmental liabilities are allocated between Novartis and the Company based on the ownership of the site or, if the site is a shared site or is not owned by either entity, the entity responsible for causing the liability. If causation cannot be determined, costs are shared equally. The agreement with Novartis could terminate for certain liabilities in the United States (i) upon a sale of substantially all of the Company's assets, (ii) upon a change in control of the Company, or (iii) for individual facilities, upon the sale of the facility (unless the Company retains responsibility for any clean-up at such site), but is not subject to any time or amount limits.

The Company continues to participate in environmental assessments and clean-ups at a number of locations, including operating facilities, previously owned facilities and United States Superfund sites. The Company accrues for all known environmental liabilities for remediation costs when a clean-up program becomes probable and costs can be reasonably estimated.

Clean-up of the most significant sites has been or is nearly completed, except that the Company is awaiting the issuance of a Record of Decision (''ROD'') at its Toms River, New Jersey site. This ROD will determine the scope of source remediation which will be required at this site and is expected to involve significant expenses over a period of several years. In addition, as a result of past operations of the former Ciba-Geigy, the Company is involved in the planning of a remediation of the waste disposal site in Bonfol, Switzerland, which was closed in 1976. The responsibility for the clean-up lies with several chemical enterprises including among others the Company, Clariant Ltd., Novartis and Roche Holding Ltd. The responsible companies closely cooperate with the competent authorities on defining the necessary measures in view of a final remediation of the site. The Company cannot predict with certainty the total cost of such remediation, or the precise amount of time necessary to accomplish the remediation. However, it is currently estimated that the remediation effort could require nine to 15 years to complete.

In May 2000, an action was commenced against the Company in the New Jersey Chancery Court seeking medical monitoring for an alleged class of individuals who resided in the vicinity of the Company's Toms River, New Jersey remediation site during the years commencing 1952 to 1980 and were allegedly exposed to contaminated drinking water. The case is in a very early stage, and the Company intends to defend the case vigorously.

In addition the contractual terms of the sale of the Performance Polymers business (see Note 2) stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Performance Polymers business prior to the closing date. The Company has agreed to indemnify the purchaser for such liabilities except, in general, with respect to damages arising from the use of sites other than as chemical sites and to increases in damages due to changes in law following the closing date. This indemnity is unlimited in time or amount with respect to any such environmental liabilities in the United States. The indemnity with respect to any non-U.S. environmental liabilities is, in general, limited to 15 years and CHF 75 million. Novartis environmental indemnification obligations to the Company described above are not affected by the sale of the Performance Polymers business.

Management believes that the environmental reserves accrued should be sufficient to meet all currently known and estimable environmental claims and contingencies. Because of the nature of the Company's operations, however, there can be no assurance that significant costs and liabilities from ongoing or past operations will not be incurred in the future. In addition, environmental clean-up periods are protracted in length and environmental costs in future periods are subject to changes in environmental remediation regulations.

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Ciba Specialty Chemicals (SWX:CIBN,NYSE:CSB) is a leading company dedicated to producing high-value effects for its customers' products. Our specialty chemicals, added in small quantities, enhance the performance, look and feel of the final product. Business success is driven by our long-term strategy of innovation and continuous operational improvements. Ciba brings new and creative thought to the processes and products of our customers in more than 120 countries. Ciba's continuing operations generated sales of CHF 7.2 billion in 1999 and spent some CHF 250 million on R&D to foster innovation across the Company.

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Value beyond chemistry