



Page 1 of 16
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News Release

- 1998 Interim results higher than half-year 1997
- Profit recovery programme for Performance Polymers division
- Key strategic initiatives to shape Ciba's portfolio
 - Divisions realigned to focus on core competencies and customer industries
 - Performance Polymers division: strategic alternatives including divestment explored
 - Expected annual Operating Income improvements of CHF 100 million in 1999

	6 months ended June 30 1998 (in CHF m)	6 months ended June 30 1997 (in CHF m)	% change
Net sales ⁽¹⁾	4,286	3,931	9
Operating Income before restructuring charges and in-process research and development	490	477	3
EBITDA ⁽²⁾ before restructuring charges and in-process research and development	712	662	8
Net income (loss)	(791)	172	

(1) The Company's vinyl stabilisers business was swapped for Witco's epoxy systems and adhesives business effective January 1, 1998. As part of the swap, all related 1998 Additives' revenues were transferred to Witco and related epoxy system and adhesives revenues were included in the Performance Polymers division. Additionally, due to the change from IAS to US GAAP, the 1997 half-year net sales were restated to reflect the deconsolidation of a previously consolidated fifty percent-owned joint venture, which had sales of CHF 26 million.

(2) EBITDA (Earnings before interest, taxes, depreciation and amortisation) is calculated as operating income before restructuring and special charges plus depreciation and amortisation.

Overview

Ciba Specialty Chemicals posted a further increase in operating income in the first six months of 1998. Operating income, before special charges related to the acquisition of Allied Colloids, rose 3 percent in Swiss francs to CHF 490 million. This operational improvement was achieved despite unfavourable currency effects and difficult market conditions in Asia. EBITDA rose 8 percent to 16.6 percent of sales. For the period ending 30 June 1998, the Company posted a net loss of CHF 791 million resulting from special charges, primarily an accounting write-off of CHF 1 billion, associated with the acquisition of Allied Colloids in March 1998.

Group sales between 1 January and 30 June 1998 grew 9 percent in Swiss francs and 12 percent in local currencies, compared with the same period in 1997. Total Group sales reached CHF 4.3 billion. Sales excluding the Group's Water Treatments division (which became fully consolidated effective 1 April 1998) increased by 2 percent in Swiss francs and 4 percent in local currencies. This is higher than the estimated market growth of 2 to 3 percent for 1998. All divisions contributed to the increase. Sales growth was supported by the Group's continued strong volume growth.

"We appreciate that we achieved above-market growth and an improved half-year operating income. This result demonstrates our global ability to master difficult conditions, such as in Asia or parts of the textile industry. Lower market growth has led to reduced sales growth and a lower absolute increase in operating income. We are not satisfied with the absolute magnitude of improvement and are determined to further increase the performance of the Ciba group in-line with our medium-term targets," said Rolf Meyer, Chairman of the Board of Ciba Specialty Chemicals.

The performance of both the Additives and Pigments divisions was outstanding. Margins further increased in both divisions, due primarily to volume and mix improvements, and better capacity utilisation. Consumer Care results remained flat, while Textile Dyes' somewhat weaker performance is in-line with expectations given the tougher textile market conditions. Water Treatments' performance was temporarily dampened during the transition phase into Ciba. This business expects a return to stronger growth and margins as the integration is on track, and synergies are fully confirmed.

Results posted by Performance Polymers were very disappointing, and immediate and strong corrective action has been taken to restore, and improve on, the 1997 profitability levels. This result was due to a combination of lower sales prices, increased raw material costs, unfavourable changes to product mix and cost increases, all of which have reduced margins. Group management has implemented an immediate profit recovery programme and a dedicated project team under the leadership of Hermann Vodicka, Chief Executive Officer of Ciba Specialty Chemicals.

Focusing Ciba's portfolio on core competencies and customer industries:

Management has decided on far-reaching measures to better focus on Ciba's core competencies, address market and customer industry opportunities, and capture further synergies across the Group. These moves are expected to generate annual improvements in Operating Income of CHF 100 million in 1999.

- The Group will create a new **Colors division** by combining its current Pigments and Textile Dyes divisions. With the merger effective 1 September 1998, the Colors division will focus on the Company's unique core competency of colours in industrial and consumer applications. This move enables Ciba to build on its core competency of providing colour to the world's industries, and creates a leading specialty chemicals business devoted exclusively to the colours market.

Jean-Luc Schwitzguébel, currently global President of the Textiles Dyes division, has been named the global President of the new Colors division.

- The dyes and printing auxiliaries, and textile finishing businesses of the Consumer Care, Textile Dyes and Water Treatments divisions, will be combined in a new business segment, Fabric Processing and Finishing, in the Consumer Care division under the leadership of Martin Riediker. This combination will **create a global leader in fabric processing and finishing** and will provide customers with an outstanding and integrated range of products and services.
- **Strengthening the portfolio in high value-added specialty chemicals:** The strategic acquisition of Allied Colloids in March 1998, as a new platform for profitable and sustainable growth, has strengthened Ciba's existing technology base and enabled the company to increase its focus on high value-added products and services. The new **Water Treatments division** concentrates on water treatment additives for the pollution control, paper manufacturing, and the oil and mineral processing industries. The integration is on track and synergies have been confirmed.

Integration of non-core water treatments businesses are progressing well. These consist of: Allied Colloids' Personal Care business moving to the Consumer Care division, and the integration of coating additives into the Additives division, which will result in one of the most innovative product portfolios in the industry.

- **Performance Polymers division - exploring strategic alternatives including divestment:** Following internal Autumn 1997 and Spring 1998 strategic portfolio reviews, resulting analysis has concluded that there is a limited fit between Ciba's portfolio and the Performance Polymers business in terms of core competencies, technologies and markets. As a result, the Company is exploring strategic alternatives for the division including divestment.

The Group expects up to 1,100 positions world-wide to be eliminated by all the announced initiatives. For those employees affected, where appropriate, early retirement or filling existing vacancies within the Ciba group is a priority. If further employment is not possible, comprehensive redundancy packages will be offered, including counselling and support services.

Senior Management Appointments Announced

As a result of the portfolio changes, the Group announces several senior management appointments. Jean-Luc Schwitzguébel has been appointed Global President of the Colors division, and member of the Executive Committee. Jean Schaeffe, currently head of the Pigments division in North America, has been appointed Global President of the Performance Polymers division. Other management appointments announced include the new global Colors Management Committee and the respective country division heads, as well as the appointment of Mark Garrett to head the new business segment, Fabric Processing and Finishing, in the Consumer Care division under the leadership of Martin Riediker.

"Through these moves, we are aligning the Ciba organisation closer to our core competencies and will gain further focus on our customer industries. These initiatives will build for growth through enhanced customer offerings, as well as improve efficiencies across the Group," said Hermann Vodicka, Chief Executive Officer of Ciba Specialty Chemicals. "Our ambitious plans build on focus, strength and leadership. We believe that the talent and energy of our leadership team, combined with global experience will prove invaluable for driving sales and profit growth."

Outlook: further profit improvement

Provided that the current economic conditions prevail, the Company is confident of:

- reaching its stated targets of growth above that of the specialty chemicals market, which is estimated at 2 to 3 percent in 1998;
- a further improvement in profitability, with an enhanced EBITDA of 16 to 17 percent of sales. It is expected that operating income before special charges for the full year 1998 will be clearly higher than in 1997;
- improving asset turnover (velocity);
- achieving a positive economic profit, excluding one-off charges relating to the Allied Colloids acquisition.

The write-off of In-Process Research and Development is approximately CHF 1 billion. Net restructuring charges reflected in the first-half of 1998 are expected to be sufficient to cover the remaining, currently foreseeable restructuring needs relating to the integration of Water Treatments, the creation of the Colors division and the transfer of the Dyes and Printing Auxiliaries to the Consumer Care division.

The programmes that the Company is implementing are expected to generate annual improvements in operating income of CHF 100 million in 1999. In addition, the Performance Polymers profit recovery initiative is targeted to restore, or improve on its 1997 operating income level for 1999.

Eventual cash proceeds from the divestment of Performance Polymers or other non-core investments could be used, for example, to repay debt, initiate a treasury share buy-back on the open market, or finance acquisitions, alliances or partnerships in core business areas.

One-time costs relating to the profit recovery programme and the potential exit from the Performance Polymers business cannot, as yet, be quantified.

Detailed Half-Year Results

Income Statement: Further improvements in results

Group sales totalled CHF 4.3 billion, representing a rise of 9 percent in Swiss francs and 12 percent in local currencies. Sales, excluding those of the Water Treatments division (fully consolidated from 1 April 1998), increased by 2 percent in Swiss francs and 4 percent in local currencies. Lower exchange rates of European and many Asian currencies, including the Japanese yen, accounted for an unfavourable currency effect.

While volume increased by 7 percent, average sales prices in local currencies were 3 percent lower than in the corresponding 1997 period. Price adjustments occurred at a slower rate than during 1997.

Asia: in-line with lower forecasts

The difficult market conditions in Asia affected sales of all divisions, confirming our earlier forecasts that for the full year, sales in Asia will be 10 to 15 percent lower than 1997 levels. Due to closely controlled credit terms and payment conditions, there have been no significant increases in payment terms, nor did the Company incur major bad debt losses in Asia.

Operating Income and EBITDA increased

Gross profit margins expressed in percent of sales remained stable at the levels achieved for the first-half 1997. Gross profit also showed an increase in absolute terms, albeit moderate due to the weaker sales growth. Research and development expenses were level at 3.6 percent of sales. Selling, general and administrative costs increased, due primarily to changes in consolidation, and start-up costs associated with several production facilities in, for example, the UK, the US and China. Operating income before one-time charges reached CHF 490 million up 3 percent, or 11.4 percent of sales, when compared with the first-half 1997. The impact of unfavourable currency rates on operating income is estimated at CHF 70 to 100 million.

EBITDA rose 8 percent to CHF 712 million, or 16.6 percent of sales.

Restructuring and special charges of CHF 1,060 million relate primarily to the charge for the value of In-Process Research and Development associated with the recently acquired Allied Colloids. Under US Generally Accepted Accounting Principles (GAAP), R&D may not be capitalised as these are potential future benefits not available today, as the work is ongoing and has not yet reached the market. Also included are CHF 50 million for the net restructuring charge relating to the acquisition, integration and resulting organisational changes.

Interest expense rose to CHF 151 million, reflecting the Group's increased debt level following the acquisition. This corresponds to a 6 percent average pre-tax interest cost of debt. Through a series of financial transactions executed during the second quarter of 1998, the Company laid the basis for a significantly lower future borrowing rate of an estimated average 5 percent.

Balance Sheet reflects effect of the Allied Colloids acquisition; Group on track with asset turnover targets

The changes in the balance sheet primarily reflect the acquisition of Allied Colloids. The remaining goodwill is included in intangible assets. The increase in short- and long-term debt reflects the debt of Allied Colloids incurred as part of the acquisition.

Operationally, excluding consolidation effects, inventories were higher in comparison with year-end 1997 values. This increase is seasonal due to summer plant vacation schedules. Receivables remained stable. Property, plant and equipment values reflect significantly lower capital spending. The Company invested CHF 182 million in fixed assets, well below 5 percent of sales and less than the level of depreciation in the first half year.

Cash Flow

Cash flows reflect the acquisition of Allied Colloids. Cash provided by operating activities is lower than in 1997, primarily due to increased financing costs. Cash used for restructuring expenses reflects the cash used for previously accrued restructuring measures.

Divisional Results

Additives

Sales grew, on a comparable basis, by 4 percent in Swiss francs and 7 percent in local currencies. As expected, prices continued to weaken, although at a clearly slower pace than last year. Overall, volume was up 12 percent while prices were 5 percent weaker than in the corresponding first-half of 1997. Geographically, sales were particularly strong in the Americas and in most European countries but weak in several Asian countries.

Profitability was significantly higher. For the full year 1998, the division expects continued sales growth, a sustained high level of profitability, and further enhancements of asset turnover (velocity).

Consumer Care

Sales totalled CHF 583 million, down 1 percent in Swiss francs and up 1 percent in local currencies when compared with the first half of 1997. Sales prices were 4 percent lower than in the first-half of 1997, with prices easing at a slower pace in 1998 than in the corresponding 1997 period. Volume was 6 percent higher. Geographically, the performance was mixed, with particularly strong growth in South America and some northern European countries, while sales in several Asian countries were down.

Successful renegotiation of supply contracts for raw materials and tight expense controls helped keep the divisional operating income at the 1997 level. Asset turnover (velocity) further improved. In July, the division announced the sale of its non-core Chelates business.

For the full year 1998, Consumer Care expects a modest increase in sales and a slight improvement in profitability. Assets are expected to remain at the low levels of 1997, leading to an improvement in velocity.

Performance Polymers

The division's sales rose 19 percent in Swiss francs and 21 percent in local currencies. This was primarily due to the integration of the epoxy and adhesives business of Witco. Excluding Witco, sales increased by 7 percent in Swiss francs and 9 percent in local currencies. Growth in local currencies reflects unfavourable sales price developments of 2 percent and volume growth of 11 percent.

Profitability was clearly disappointing. This is mainly due to a combination of sales price erosion, unfavourable product mix, and significant raw material price increases. Despite programmes to reverse this trend, the positive impact remains insufficient. Currently, sales prices are 2 percent below and raw material prices are up to 3 percent higher than in the first-half of 1997.

For the second half of 1998 the division expects to return to higher profitability levels more in-line with its 1997 performance. However, it will be difficult for the division to repeat the profitability achieved in the full year 1997. Asset turnover (velocity) is expected to further improve.

Group management is immediately addressing the performance of the Polymers division with an aggressive profit recovery programme designed to restore or exceed the profit levels achieved in 1997. This programme is based on: price increases (provided current market conditions prevail); renegotiation of raw material prices; and expense controls including the reduction of up to 500 personnel. Profit recovery must be achieved in 1999.

Pigments

Sales of all the division's business segments showed moderate increases, which led to total sales of CHF 636 million; 1 percent higher in Swiss francs and 3 percent higher in local currencies when compared to 1997. Sales growth reflects small price and volume increases. Geographically, sales were affected significantly by the weaker economic conditions in Japan and South Korea but also in south-east Asia. Sales were very strong in regions North and South America and in several European countries.

Divisional profitability increased, driven primarily by a better utilisation of production facilities and tight cost controls. Divisional assets temporarily rose in anticipation of production start-ups in Newport, US, Paisley, UK, and in Qingdao, China.

For the full year 1998, and in the framework of the new Colors division, Pigments expects a further continuation of its successful performance with an increase in sales and profitability, and a further improvement in velocity.

Textile Dyes

With sales totalling CHF 704 million, sales were flat in local currencies and 3 percent lower in Swiss francs. Prices were down by 6 percent compared to the first-half of 1997, with price decreases slowing down. Volume was up 6 percent.

Strong sales were registered in reactive dyes for cotton, and polyester dyes, while the decline of the world-wide wool market affected sales to this industry. Sales in several countries in Europe were satisfactory, while sales in North and South America eased, reflecting geographic shifts of the textile industry triggered by low-priced exports from Asian countries. As a global player, the division was able to accommodate these geographic shifts well.

In spite of strong efforts to increase profitability by renegotiating raw material price contracts and tight expense controls, the division was unable to fully repeat last year's outstanding first-half operating results. More efficient demand forecasting enabled the division to reduce inventories, while simultaneously increasing sales volume.

For the full year 1998, the division (in the framework of the new Colors division) expects sales and profitability to approach the 1997 record levels, and that asset turnover (velocity) will improve.

Water Treatments

The Water Treatments division was consolidated from 1 April 1998. Sales of the second quarter 1998 remained at last year's levels both in Swiss francs and local currencies, reflecting a 2 percent price decrease and a 2 percent volume increase. The lower than expected sales growth reflects the impact of the Asian crisis, aggressive currency-related competitor pricing in some segments, and initial uncertainties, now resolved, relating to the transition into Ciba. Costs were maintained at previous year's levels, with benefits from the integration beginning to materialise in the second half.

1998 is, as expected, a year of transition with managerial resources devoted to the efficient and speedy integration into Ciba Specialty Chemicals and the formation of the new Water Treatments division. In July, Ciba underlined its commitment to building a new platform for profitable and sustainable growth by approving a USD 45 million production extension project in West Memphis, US.

The division forecasts higher returns for the second half of 1998 with a fast return to its traditional growth pattern. However, profitability for this period will not as yet, fully reflect the benefits of synergies.

Ciba Specialty Chemicals (SWX:CIBN) is one of the world's leading developers and producers of specialty chemicals and operates on a global basis with sales in 117 countries and manufacturing facilities in 29 countries. As a specialty chemicals company, Ciba's businesses produce high-value effects that transform our customer's products. With a vision to shape the industry, our success is driven by innovation, with significant commitment to research and development.

The Group reported 1997 sales of CHF 7.8 billion (excluding Water Treatments). Its five divisions – Additives, Colors (from of September 1, 1998), Consumer Care, Performance Polymers, and Water Treatments (from April 1, 1998) – all have leading positions in their chosen market segments. In 1997, CHF 302 million was spent on R&D to foster innovation across the group. Ciba Specialty Chemicals was listed on the Swiss Exchange on 13 March 1997 and is included in the Swiss Market Index (SMI).

ENDS

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 and to continue to obtain sufficient financing to meet its liquidity needs, effects of overall economic conditions, including currency fluctuations, inflation and consumer confidence.

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