

Ciba Specialty Chemicals

# Business Review 2002



## Group Summary

*Making the difference*

Ciba Specialty Chemicals further strengthened its financial position last year. The alignment of the Company with its markets and customers, consolidation of three supply chains into one and further streamlining produced clearly positive results. Productivity and market share improved in a difficult economic environment.

The continuing focus on profitable growth paid off. Sales increased 3 percent in local currencies compared to 2001, ahead of the market, with strong gains in Asia-Pacific (+5 percent) and 2 percent gains in both Europe and the Americas. Due to the significant appreciation of the Swiss franc, sales were 4 percent lower in Swiss francs, at CHF 7.085 billion. Volumes rose 5 percent, which outpaced price reductions, which were held to 3 percent.

EBITDA<sup>1</sup> reached CHF 1.173 billion, allowing the EBITDA margin<sup>2</sup> to be kept at a good level of 16.6 percent of sales. Spending on research and development rose 7 percent, to CHF 294 million, reflecting the Company's commitment to innovation. Net income rose 6 percent to CHF 406 million. Earnings per share were CHF 5.92.

Net debt was further reduced to less than CHF 1.5 billion, while cash on hand reached a record of nearly CHF 2.4 billion. The generation of free cash flow was strong at CHF 683 million.

Over the past two years, the Company has closed four smaller production plants and has had a net reduction of 1,300 positions following the addition of new positions in Asian growth markets. The Company has also instituted direct e-commerce connections with major customers and begun e-marketing initiatives targeting customers further down the value chain.

With its leaner structure, strengthened balance sheet and continuing focus on cash and asset management, Ciba Specialty Chemicals is well positioned to either participate early in an economic upswing or respond quickly to adverse developments.

<sup>1</sup> EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization, and is calculated as operating income plus depreciation and amortization.

<sup>2</sup> EBITDA margin is EBITDA expressed as a percentage of net sales (EBITDA divided by net sales).

## Summary of Financial Information

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

Year ended December 31, 2002 2001

### Statements of income

<b>Net sales</b>	<b>7 085</b>	7 367
Cost of goods sold	4 729	4 988
<b>Gross profit</b>	<b>2 356</b>	2 379
Selling, general and administrative	1 247	1 258
Research and development	294	276
Amortization of goodwill	0	61
Amortization of other intangibles	33	31
(Income) from earnings of equity affiliates	(6)	(8)
<b>Operating income</b>	<b>788</b>	761
Interest expense	(159)	(203)
Interest income	49	69
Other financial expense, net	(105)	(59)
<b>Income from continuing operations, before income taxes and minority interest</b>	<b>573</b>	568
Provision for income taxes	154	178
<b>Income from continuing operations, before minority interest</b>	<b>419</b>	390
Minority interest	13	10
<b>Income from continuing operations</b>	<b>406</b>	380
Cumulative effects of change in accounting principles, net of tax	0	2
<b>Net income</b>	<b>406</b>	382
<b>Earnings per share from continuing operations</b>	<b>5.92</b>	5.72
<b>Earnings per share</b>	<b>5.92</b>	5.76

### Balance sheets

Current assets	5 314	4 827
Property, plant and equipment, net	3 196	3 565
Other long-term assets	3 282	3 326
<b>Total assets</b>	<b>11 792</b>	11 718
Current liabilities	3 095	1 977
Long-term liabilities	4 267	5 745
Minority interests	76	88
Shareholders' equity	4 354	3 908
<b>Total liabilities and shareholders' equity</b>	<b>11 792</b>	11 718

### Statements of cash flows

Net cash provided by operating activities	1 038	1 054
Net cash used in investing activities	(349)	(334)
Net cash provided by (used in) financing activities	144	(275)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(74)</b>	(22)
<b>Net increase in cash and cash equivalents</b>	<b>759</b>	423

### 2002 Stock Development Index\*



\* Source: Thomson Datastream

## Sales

	2002	2001	Percentage change	
			in local currencies	in CHF
PA	1 813	1 834	+6	-1
CE	1 920	1 944	+5	-1
WPT	1 409	1 486	+1	-5
TE	1 544	1 673	-2	-8
HPC	399	430	+1	-7
Group	7 085	7 367	+3	-4

in millions CHF

## EBITDA

	2002	% of sales	2001	% of sales
PA	346	19.1	388	21.1
CE	440	22.9	411	21.1
WPT	186	13.2	157	10.6
TE	208	13.5	248	14.8
HPC	82	20.6	95	22.2
Corporate	(89)		(69)	
Total	1 173	16.6	1 230	16.7

in millions CHF

PA	Plastic Additives
CE	Coating Effects
WPT	Water & Paper Treatment
TE	Textile Effects
HPC	Home & Personal Care

## Plastic Additives

Leveraging industry leadership

Plastic Additives expanded its product and service offerings in 2002, driving strong volume growth and market share gains in a competitive pricing environment. Sales rose a strong 6 percent in local currencies, with balanced global growth. Capital investments, aimed at debottlenecking, increased capacity and productivity.

Ciba Specialty Chemicals purchased the MELAPUR® flame-retardant technology from DSM, a leading range of halogen-free, melamine-based flame retardants. Coupled with the new Ciba® TINUVIN® FR technology, this established Plastic Additives as a credible flame retardant solution provider. The Segment also introduced Ciba® SMARTLIGHT™ RL 1000 – a photosensitive additive for greenhouse films that increases crop productivity – using new e-marketing tools that leverage the Internet to reach targeted downstream customers. A hydrophilic additive was introduced, Ciba® IRGASURF™ HL560, designed to increase the absorbent properties of polypropylene fabrics used in wipes and diapers. To meet specific market needs for substrates and applications, the Segment launched Ciba® IRGASTAB® PUR for polyurethane and Ciba® IRGASTAB® STYL for styrenics.

Response to the year-old CIBA EXPERT SERVICES™ program was very promising, generating new revenues from analytical, testing and operational services. Many current and non-traditional customers attended conferences learning about product registration and industry regulations.

Lubricant Additives expanded its product range with Ciba® IRGALUBE® products designed for industrial lubricant applications.

## Coating Effects

Expansion through innovative technology

Coating Effects had a strong year, with higher results in sales in local currencies (+5 percent) and in profitability. A good increase in volumes was due to strong demand in the coatings, plastics and inks markets, which represent the bulk of the Segment's sales. Excellent growth was also achieved in digital printing as well as in pigments for LCD displays because of market developments in the notebook and computer monitor markets.

A large number of new product introductions met with excellent customer acceptance. The Segment introduced Ciba® TINUVIN® 405, a new ultraviolet absorber which is compatible with powder coatings. In addition, two new photoinitiators for the curing of coatings were launched: the state-of-the-art Ciba® IRGACURE® 819 DW and Ciba® IRGACURE® 250 for cationic curing. Several new pigments were also launched and, in December, Ciba® LIGNOSTAB™ 1198 was presented, which protects wood's natural color.

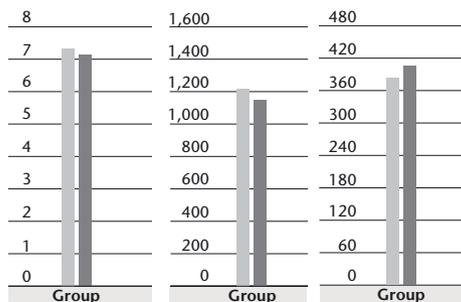
Further advancements were made in e-commerce, with new polymer colorant services available on the industry Internet platform SpecialChem as well as with new features on Ciba Specialty Chemicals' own Internet site, better tailored to specific industry segments.

Customer Brand Management, a service introduced in 2000 to offer Ciba Specialty Chemicals' expertise in color across a range of substrates to advise global companies on the maintenance of color consistency and protection of the quality of their valuable brand logos, generated more new business opportunities as well.

■ 2001  
■ 2002

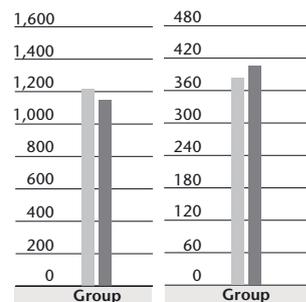
### Sales

in billions CHF



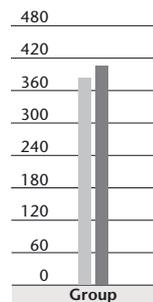
### EBITDA

in millions CHF



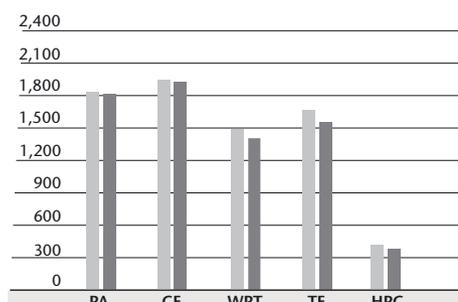
### Net Income

in millions CHF

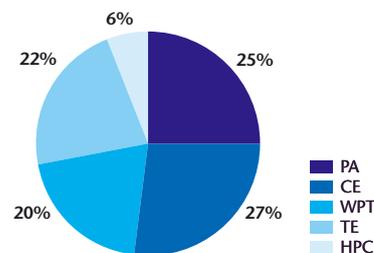


### Sales by Segment: 2001 vs. 2002

in millions CHF



### Sales by Segment: 2002



## Water & Paper Treatment

*The provider of choice in water & paper treatment*

Water & Paper Treatment continued its turnaround in 2002, leading to higher sales in local currencies (+1 percent) and a further improvement in profitability. Production and personnel costs were both lower. Volumes increased ahead of price reductions. Strong growth in Asia-Pacific (especially China and Indonesia) and South America, as well as good growth in Europe, helped offsetting weakness in NAFTA.

Paper sales benefited from the introduction of Ciba® LODYNE® grease repellents, a fluorochemical which has been cleared for a wide variety of food contact uses by the United States Food and Drug Administration. Applications include everything from pet food bags and cartons to fast-service restaurant use and other food packaging. The Segment's chemists were among those honored with the annual Ciba Specialty Chemicals R&D Award for developing a novel platform for oil, grease and water repellence.

Water treatment sales were boosted with the launch of new flocculants that use the revolutionary UMA™ technology. In addition, the Segment developed a new inverse emulsion range of flocculants that increases cost efficiency and is useful across virtually all of its industry groups.

The Segment was also honored when its Ciba® HYDROCOL® system supported the setting of a new world speed record in fine paper production. Nordland Papier, a subsidiary of UPM-Kymmene Corporation, produced 3,000 kilometers of paper, nearly 10 meters wide, in 33 hours. The resulting length would have stretched from Germany to Morocco.

## Textile Effects

*The provider of integrated textile solutions*

Textile Effects continued last year to manage the increasingly rapid shift of textile production markets from Europe and NAFTA to Asia. There was strong, double-digit growth in the oil and water repellent business and good gains in comfort and easy care. Global weakness continued in dyes for most major fiber grades. Segment sales in local currencies were 2 percent lower. Strong price competition continued. Volumes were modestly higher.

The Segment expanded its cooperation with DuPont Textiles and Interiors to jointly develop and market new and increasingly sophisticated products for stain and water repellent finishes, featured in DuPont's Teflon® brand. Textile Effects' chemists shared in receiving the Ciba Specialty Chemicals R&D Award for new advancements in this field.

New Ciba® ULTRAPHIL® moisture management agents were introduced, allowing "breathable" sportswear. The Segment also sees good potential for its line of digital printing inks with the recent introduction of the world's first high-speed digital textile printer. Also, new dyes for polyamides were introduced, providing customers with a higher level of brilliance and performance.

The Segment has also introduced Ciba® Textile Services, featuring expertise in areas ranging from color matching, to effects development, fashion shade management, virtual color communication and training. Two world-class sample dyeing facilities are offering services globally to both the Segment's customers as well as to their customers further down the value chain.

## Home & Personal Care

*Technology opportunities building a bright future*

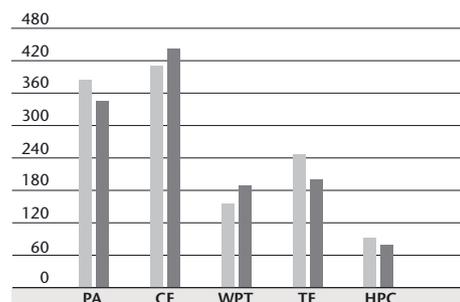
For Home & Personal Care, the strong market acceptance of its different lines of novel effects continued in 2002. The Segment successfully expanded its product portfolio beyond its traditional whiteners and hygiene solutions. Sales rose 1 percent in local currencies. UV protection products, solutions for fabric care and its line of sophisticated detergent whiteners were the main growth drivers. Good growth in North and South America, as well as Europe, offset weakness in Asia-Pacific where strong competitive activity continued in more mature product lines. Volumes rose modestly and outpaced price reductions.

At the 22nd Congress of the International Federation of Societies of Cosmetic Chemists, the Segment launched a revolutionary chemistry for UV skin protection products. Ciba® TINOSORB® S combines highly efficient UV-A and UV-B protection with photostability and oil solubility, making it applicable for cosmetic creams and lotions. And Ciba Specialty Chemicals introduced its computer-based Sunscreen Simulator, which allows sunscreen manufacturers to accurately predict the sun protection factor, to optimize development during the creation of their formulations.

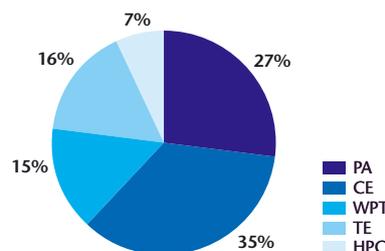
There was eager response as well at the 5th World Detergents Conference, where the Segment introduced a new technology platform, oxidation catalysts. This platform's first commercial catalyst, Ciba® TINOCAT®, to be launched in Asia in 2003, shows enhanced low-temperature stain bleaching effects as well as inhibition of transfer of colors during the wash cycle, all at very low concentrations.

### EBITDA by Segment: 2001 vs. 2002

*in millions CHF*

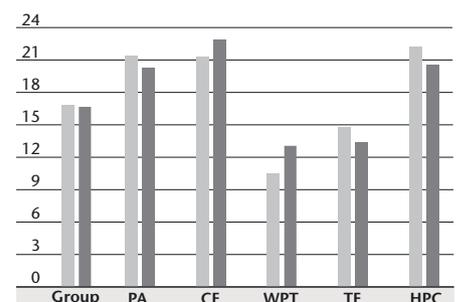


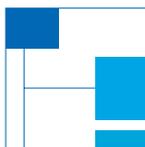
### EBITDA by Segment: 2002



### EBITDA Margin: 2001 vs. 2002

*EBITDA as a percentage of sales*



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**Making the difference... right down the line.** As a company dedicated to improving the quality of life for people around the world, Ciba Specialty Chemicals takes great pride in supporting, not just its own customers, but its customers' customers: creating a line of value that stretches from its research labs all the way to the end-user. This Annual Report follows that line through five key markets, illustrated with images from the end-user's perspective, as well as from its own and its customers' industries – showing how its expertise and care can really make the difference.



**Statement from the  
Chairman of the Board  
and Chief Executive Officer  
Armin Meyer**

**Dear Shareholders,**

The dedicated and talented employees of Ciba Specialty Chemicals, backed by our good products and services, delivered many significant accomplishments last year, despite the fact that 2002 was, in almost all areas, very challenging. The economic environment was difficult; instead of the wind at our backs, we faced strong headwinds, without much external support to help us achieve our targets. In the fourth quarter, global business conditions softened. For the full year, worldwide GDP growth was moderate, estimated at 2 percent.

Two years after the introduction of the simplified Group structure, we are benefiting from the alignment with our customers and markets as well as from our firm actions to lower the cost base. The Company increased productivity in 2002, delivering more specialty chemicals with fewer resources. We will continue with this same structure as well as with our dynamic company culture, which is based on stable and sustainable values. This allows us to continue to fully focus on our key priorities: Profitable growth, innovation, excellence in people and cash generation.

An important result of our performance, particularly our strong free cash flow generation, is that this year we are once again able to reward our valued shareholders with the same high cash payout as last year: CHF 3 per share. The Board of Directors has voted to recommend that shareholders receive this payment through a reduction in the nominal value of Ciba Specialty Chemicals stock of CHF 3 per share, bringing the nominal value to CHF 6 per share, which, from a taxation perspective, is an attractive form of payment.

**Reliable performance in a difficult environment**

Sales in 2002 reached CHF 7.085 billion. In local currencies, we exceeded last year's level by 3 percent. In Swiss francs, however, we were 4 percent below last year, mainly due to the significant strengthening of the Swiss franc against our major trading currencies. Many of our businesses grew above market average and quite a few benefited from a good number of new product introductions. Examples include coatings, lubricant additives, plastics, inks, paper, personal care and textile chemicals. In local

currencies, Plastic Additives and Coating Effects achieved solid sales growth of 6 percent and 5 percent, respectively. In fact, all of our segments, with the exception of Textile Effects, exceeded last year's sales level in local currencies. The Textile Effects Segment was faced with a very competitive environment, including the increasingly rapid shift from its traditional markets to Asia. With our global setup, however, we are in a position to follow the market moves and will continue to do so.

With our strategy of "quality before volume", we could limit price reductions to 3 percent. This supported our earnings. Our customers continued to rely on the high value of our products, expertise and services. This allowed us to strengthen our market positions even in difficult times. Having no signs of an immediate improvement in the business climate, we continue to closely monitor the situation and are prepared to take fast and firm actions, either to participate early in an upturn or to match a further worsening environment.

In local currencies, sales in Asia-Pacific grew by 5 percent, with the China Region now becoming our third largest market after the United States and Germany. Europe grew by 2 percent, as did Germany itself. In the Americas, sales rose 2 percent, with the U.S. slightly ahead of last year's level.

Net income increased by 6 percent in Swiss francs, to CHF 406 million, due to our substantially lower cost base, which helped to compensate the negative currency impacts. Earnings per share were CHF 5.92. We maintained the EBITDA margin at a good level of 16.6 percent of sales. We outperformed most of our competitors and this is the direct result of our determined actions to reduce costs and increase productivity. At the same time, we increased spending on research and development by 7 percent, demonstrating our commitment to technology and innovation.

We continued to focus strongly on cash generation. Proactive management of inventories and receivables, as well as a simplified supply chain structure, helped us reach a free cash flow of CHF 683 million. It is important that we are able to generate a solid cash flow also in difficult times, which is a convincing sign of stability. Net debt was further reduced, by CHF 888 million, and is now below the level of CHF 1.5 billion, with a record of nearly CHF 2.4 billion remaining available on the balance sheet in cash. The Company is well prepared to absorb the upcoming bond debt repayments in 2003 of around CHF 950 million, while afterwards maintaining a healthy balance sheet.

#### **Continuous improvement of operations**

Ciba Specialty Chemicals has launched a number of actions to improve productivity. The supply chain project, merging our three existing systems into one global logistics system, is well on track and will be finalized during 2003. This will lead to higher efficiency and simpler and faster processes. In addition, the announced cooperation with Danzas will help us achieve further cost reductions in the transportation logistics area. In our production network, four smaller manufacturing facilities have been closed over the past two years. Our capital expenditures are sharply focused on increasing productivity; that is, maximum capacity utilization at the lowest cost. In order not to contribute

to the overcapacity existing worldwide, Ciba will further push rationalization to secure a streamlined and cost competitive production setup.

In 2001 and 2002, we eliminated 1,300 net positions to adapt our cost structure to the realities of the market. At the same time, we also added people in strategic areas such as China and other Asian countries, where business was growing over-proportionally. We implemented new e-marketing initiatives and online services that allow for a more precise targeting of customers further down the value chain.

**"Our customers continued to rely on the high value of our products, expertise and services. This allowed us to strengthen our market positions even in difficult times."**

#### **2005 targets – Managing for Growth – Sustainability**

While the Company has made substantial improvements in cash generation, cost reduction and earnings, an increased focus in 2003 and beyond will be on profitable growth, to further improve the top line. We are launching "Managing for Growth". A variety of actions will be implemented with the target to outperform market growth by at least 2 percent, and dedicated teams will drive high-impact growth projects across the Company – in new markets as well as with new and innovative products and solutions. Our ambition is to aggressively seek every opportunity to grow and to become one of the best companies in creatively pursuing and creating growth opportunities. In addition, the Company is committed to realizing some acquisitions in 2003; however, we will not waver from our policy to only make acquisitions that meet our strict requirements and, by that, keep the risk level as low as possible. With all of these actions in place, we will stick to the earlier announced targets: 6 percent average annual growth until 2005 and, in 2005, an EBITDA margin of 20 percent of sales and a free cash flow exceeding CHF 1 billion.

Economic performance is a key pillar for Ciba Specialty Chemicals; more and more, however, social issues and environmental sustainability are as well. Ciba's Executive Committee approved a Social Policy Statement last year, which complements the Code of Conduct adopted in 2000. Together, they represent internationally recognized, best practice standards of social performance. As our official policies, they shall ensure that Ciba Specialty Chemicals

follows the highest level of standards in its ongoing implementation of open relationships with our neighbors and all of our stakeholders, be they inside or outside the Company. They also support our various and well established educational initiatives in the field of chemistry. In addition, the Executive Committee has also formalized our long-standing commitment to be accountable for our products from "cradle to grave", with the official adoption of Product Stewardship Guiding Principles.

### Corporate Governance

Ciba Specialty Chemicals continues both to meet the latest corporate governance guidelines as well as to exceed many of the standards in practice. The Company is complying with the Swiss Code of Best Practice guidelines, the new Swiss Exchange Corporate Governance Directive and continues to implement applicable regulations under the newly introduced U.S. Sarbanes-Oxley Act. All members of the Board of Directors, excluding the Chairman, are non-executive and independent of the Company. With the appointment of an external Lead Director and committees for Audit and Remuneration, both chaired by external directors, we have secured the right checks and balances. One of the initiatives approved by the Board is a change in the way in which members of the Executive Committee are rewarded. Instead of stock options they will receive shares. The Board believes that this new approach is a better method for driving long-term, sustainable and profitable growth.

### Outlook 2003

In the upcoming quarters, Ciba Specialty Chemicals does not expect substantial changes in the current trading conditions. In such a challenging market environment, it is particularly important to continue to reduce the cost base by increasing operational efficiency and by adhering to strict expense controls. The Company will need to compensate for around CHF 60 million in additional expenses, mainly for an increase in pension contributions and higher insurance premiums.

Despite the anticipated challenging first two quarters of the year, for the full year the Company expects sales in local currencies, the EBITDA margin and net income in Swiss francs to be above the levels of 2002. With the continuous strong focus on cash generation, the Company is striving to achieve a free cash flow for 2003 in excess of CHF 600 million.

These forecasts are based on the assumption of an economic recovery later in the year in the United States and, afterwards, in Europe, as well as reasonably stable currency exchange rates vis-à-vis the Swiss franc, and, as usual, the effects of potential acquisitions are not included. In addition, the Company continues to monitor developments in the geopolitical climate globally and is prepared to react accordingly.

On behalf of the Board of Directors and the Executive Committee, I thank you, our shareholders, for your loyalty and support, and all Ciba Specialty Chemicals employees for their strong contributions and excellent performance.

With best regards,

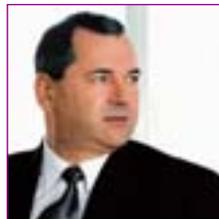


Armin Meyer  
Chairman and Chief Executive Officer  
Ciba Specialty Chemicals



Armin Meyer,  
*Chairman and  
Chief Executive Officer*

## Ciba Specialty Chemicals' Executive Committee



Martin Riediker,  
*Chief Technology Officer*



Michael Jacobi,  
*Chief Financial Officer*



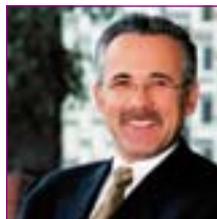
Tim Schlange,  
*Home & Personal Care*



Brendan Cummins,  
*International Coordination  
and Human Resources*



Mark Garrett,  
*Water & Paper Treatment*



Felix Meyer,  
*Plastic Additives*



Christoph Biedermann,  
*Textile Effects*



Hermann Angerer,  
*Coating Effects*



January 9

Ciba® HYDROCOL® System supports paper production world record



April 29

Two new photoinitiators: Ciba® IRGACURE® 250 (for cationic curing) and Ciba® IRGACURE® 819 DW (for state-of-the-art UV curing)



September 12

New dyes for polyamide offer brilliance and performance



October 16

New Ciba® TINOCAT® releases low-temperature bleaching power



January 28

Ciba Specialty Chemicals wins Mexico's National Electrical Energy Conservation Award



May 2

Acquisition of DSM MELAPUR® range of flame retardants



September 19

Global ad campaign emphasizes end-user benefits



October 24

Ciba® Textile Services provides expertise for customers throughout the value chain



January 29

FDA clears Ciba® SHELFPLUS® UV filter for food packaging



July 2

Ciba Specialty Chemicals complements e-business offer with polymer colorant services on SpecialChem



September 23

Revolutionary broad-spectrum UV skin protection: Ciba® TINOSORB® S



November 14

R&D prize awarded to new technology platform for oil, grease and water repellence



February 6

Ciba® TINOLUX® laundry additive uses sun to bleach stains



July 11

New Ciba® ULTRAPHIL® moisture management agents for breathable sportswear



September 26

New Ciba® IRGASURF™ HL 560: the first internal hydrophilic additive for nonwoven polypropylene hygiene products



November 18

New Ciba® SMARTLIGHT™ photosensitive additive for greenhouse films boosts flower growth and quality



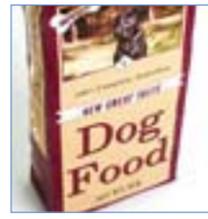
February 25

Global cooperation with DuPont's Teflon® brand for textiles



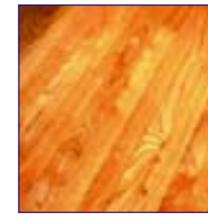
August 21

Solid financial performance strengthens the Company's position



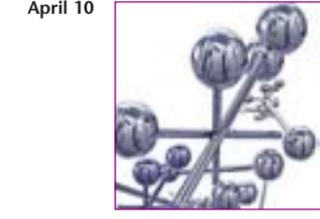
October 2

FDA clears Ciba® LODYNE® 2010 grease repellent for food contact



December 2

Ciba® LIGNOSTAB® 1198 protects wood's natural color



April 10

New water-treatment flocculants with revolutionary UMA™ technology



August 28

New Ciba® TINUVIN® 405: an ultraviolet absorber compatible with powder coatings



October 3

Ciba Specialty Chemicals selects Danzas' Control Tower Concept to boost transportation efficiency



December 5

World's first high-speed digital textile printer uses Ciba Specialty Chemicals inks for fast production at high quality

**Cars have never been simply a form of transport: they have always had personality.** They appeal to the senses. And as cars become more alike mechanically, their appearance – color, brilliance, gloss – becomes ever more important to their owners.

There are around 500 million motor vehicles in the world; 58 million were produced last year. While each one leaves the factory with a perfect exterior finish, accidents soon change that: in 2001 in the U.S. alone, there were over four million crashes that, thankfully, damaged

only the cars and not the occupants. It's little wonder that, with a world market for automotive coatings of CHF 10-12 billion, an additional CHF 8-10 billion is for "refinishing": that is, paintwork applied after sale.

Despite the size of its market, the refinishing business faces increasing pressure: sophisticated paint systems require skillful and knowledgeable staff; governments require reductions in the emission of volatile organic compounds (VOCs) given off by solvent-based coatings; customers and insurance companies require lower car repair costs and faster turnaround. Improved productivity is the key to success.

Ciba Specialty Chemicals can help: its wide expertise in photoinitiators, patented UV protection packages and antioxidant additives

mean paint companies can now offer UV-cured coatings to the world's automotive refinishers. UV-curing uses powerful ultraviolet light to cross-link the liquid polymer coating, taking only seconds to do what used to take up to an hour: create a tough, durable, scratch-resistant finish.

The refinishing industry is now extending its use of UV-cure primers and topcoats. In addition, it's expected that over the next two to three years the UV-curing technology will be used in new car production – first for repairs of parts that were damaged during shipment as well as for touch-ups, to test the technology, and then for the original coating of parts and body panels. As the acknowledged market and technical leader in UV-curing, Ciba Specialty Chemicals is working with the top paint manufacturers to extend the application of this revolutionary technology.

**"In car repair, productivity is everything. The paint booth is often the bottleneck in a repair shop: waiting up to an hour for a primer or topcoat to dry holds up everything else. UV-curing saves my customers time, improves workflow and helps them meet health and environmental standards. That makes all the difference."**

*Dr. Werner Lenhard  
Head R&D, UV Coatings for Refinish  
DuPont Performance Coatings  
Wuppertal, Germany*



Ciba Specialty Chemicals' accumulated expertise and continuing research into the interaction between ultraviolet light and polymers lets it create packages of photoinitiators and light stabilizers, so that leading paint companies like DuPont Performance Coatings can offer dramatic improvements in performance and productivity to automotive refinishers.



The difference  
is productivity

Starting with the sizing and pretreatment of the raw fibers, Ciba Specialty Chemicals offers solutions at every stage of textile production – dyes, dyeing auxiliaries, printing auxiliaries and high-performance finishes – ensuring that producers like Anna Maria Marzorati Kuntz from Vicunha Textiles can give retailers a product with the look, feel and quality that sells.



The difference  
is quality



**“Our customers are big-name brands; they demand textiles that meet the highest standards for appearance and performance. At the same time, cost is always an issue. We can't afford not to get it right the first time. We need a partner who can supply, not only great products, but a complete end-to-end package of expertise – helping us continually improve quality, productivity and cost-efficiency.”**

*Anna Maria Marzorati Kuntz  
Commercial Director  
Vicunha Textiles  
São Paulo, Brazil*



**The world's nearly CHF 1 trillion garment industry all rests on one vital instant: when a customer looks, likes and decides to buy.** Retailers and the brand names keep up with the trends of the moment – and producers have to keep up with them.

Vicunha Textiles in Brazil is one of Latin America's largest textile companies; it supplies high-value customers such as Levi Strauss & Co. as well as produces high-volume textiles, including denims, for several destinations. Its size, vertical integration and presence in the world market give it a competitive advantage – but only because it can meet the retailers' ever-rising demands for quality, consistency and speed of response.

These are demands Ciba Specialty Chemicals understands well through the experience of its 40 service labs and 800 technical representatives around the world. Ciba has recently expanded its

partnership with Vicunha Textiles to include specially formulated stain repellents for Levi Strauss & Co.'s Dockers® brand, further helping it to differentiate its products in a highly competitive industry.

Because Ciba Specialty Chemicals expertise extends from the fiber to the finish, it can offer integrated solutions, helping producers improve quality while reducing process steps and containing cost. And because Ciba is in close touch with the retailers, it can establish uniform standards and recipes to ensure that when the garment arrives, it matches expectations.

The retailer wins by getting more textiles delivered right the first time, which means lower expenses and better return on capital; the producer wins by reducing rejects and making more efficient use of facilities; and Ciba Specialty Chemicals wins by building closer partnerships across the value chain, getting a higher return on its expertise.

**Everyone enjoys being out in the sun – but it's not always good for us.** Cumulative exposure to the sun's ultraviolet light, including the longer-wavelength UV-A spectrum, damages skin, producing most of the visible signs of aging – wrinkles, pigment changes, roughness – and increasing the risk of skin cancer, the most common form of malignant disease worldwide.

Traditional sunscreens protect mostly against the UV-B radiation that causes sunburn. As people become more aware of the dangers of UV-A, there is increasing demand for broad-spectrum protection – not just in sunscreens but in moisturizers and day-creams.

Ciba Specialty Chemicals introduced just such a product in September 2002: Ciba® TINOSORB® S, a highly efficient and photo-stable broad-spectrum UV filter. It is oil-soluble for high water resistance and shows strong synergies with UV-B filters to create full-spectrum sunscreens. It introduces entirely new chemistry to the

cosmetic industry, drawing on Ciba Specialty Chemicals' more than forty years of experience in innovative UV absorbers.

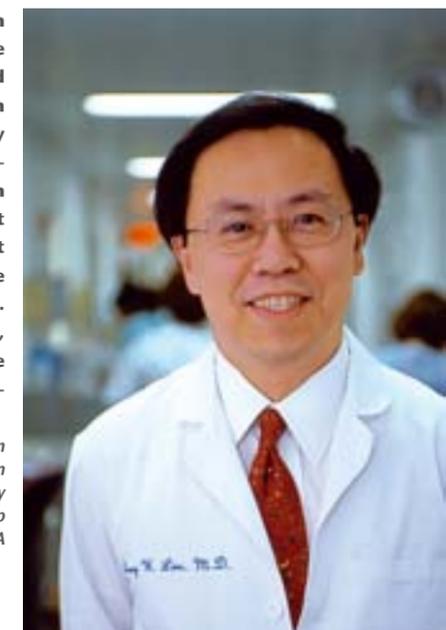
The product has been test-marketed successfully for two years and is now being used in leading brands, such as Nivea® Sun range. While FDA approval is still pending the U.S., Ciba® TINOSORB® S has already attracted notice among American dermatologists: *Dermatology Times* described it as "setting photostability standards."

The current world market for cosmetic UV absorbers in sunscreens is estimated at around CHF 500 million. Highly efficient and photo-stable UV-A absorption now makes the long-requested extension of UV absorber use into the wider skin-care market possible – estimated at over CHF 50 billion in 2001 and growing at nearly 6 percent a year.



**"As a dermatologist, I am naturally concerned at the rising levels of UV exposure and the potential for increased skin cancer rates. There is definitely a need for a product that protects against a broad spectrum of harmful UV light, that doesn't wash off and that doesn't break down over time into less-stable molecules. Based on published results, Ciba® TINOSORB® S fulfills these criteria of broad spectrum protection and photostability."**

*Dr. Henry W. Lim  
Chairman  
Department of Dermatology  
Henry Ford Medical Group  
Detroit, Michigan, USA*



The difference  
is **safety**

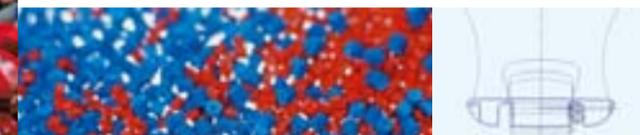


Ciba® TINOSORB® UV absorbers, added to sunscreens and skin creams and applied correctly, help prevent skin damage, giving cosmetics new functionality and assisting the work of dermatologists like Dr. Henry W. Lim.

# The difference is expertise



Ciba Specialty Chemicals helps architects realize their visions, by working with compounders, masterbatchers and their customers to create the right combination of additives and pigments for each application. Knowing the exact performance of the plastic allows customers like seat producer Reto Fässler to create objects that look good, last longer and deliver safety.



**People in Basel are passionate about soccer – from the performance of their team to the comfort and safety of their stadium.** Long gone are the days when fans shivered, while sitting on bare concrete terraces: leisure is a sophisticated industry whose customers expect the best. Supporters of FC Basel enjoy home games sitting on comfortable, durable, flame-retardant, colorful polypropylene seats – thanks to revolutionary solutions from Ciba Specialty Chemicals.

Polypropylene is one of the fastest-growing segments of the plastics industry; its excellent mechanical properties and low cost make it a popular choice for molded and extruded products. Until now, it had two disadvantages: it burns easily and degrades quickly under UV light – and conventional fire-retardants interfered with light stabilizers, effectively ruling out this popular polyolefin from outdoor use where fire resistance was required.

Working in close collaboration with the seat producer and a masterbatcher, Ciba Specialty Chemicals developed a complete system composed of colors, a flame-retardant and powerful light stabilizer system based on its novel, patented NOR technology. Test results reveal a new state-of-the-art in durability and flame retardancy.

The technology has been used again in re-seating Munich's Olympic stadium and in other stadiums in Europe. But beyond the three million seats of the world's major soccer venues, there is the vast outdoor and construction plastics market. Seventeen percent of all plastics are used in construction: for pipes, containers, siding, roof tiles, insulation, patio decks, window and door profiles, lighting fixtures and a host of other applications. In this market, the first great innovation was bringing in plastics to replace wood; bringing in polypropylene to replace other plastics could be almost as revolutionary.



**"Polypropylene is the right choice for many outdoor applications, but it's a big challenge to make a plastic perform well in so many respects: mechanically, aesthetically, durably, safely. We weren't completely sure at the start of the project that it was even possible. Fortunately, we had the benefit of an entirely new chemistry from Ciba Specialty Chemicals. This, with their deep expertise in combining additives and pigments, helped us meet the most stringent demands."**

*Reto Fässler  
Director  
Densa AG  
Basel, Switzerland*





The difference  
is timing

Ciba Specialty Chemicals products prepare the influent water, retain the fibers, form the paper, make the paper brighter and whiter, clarify the process water, reduce water and chemical consumption, color the inks, cure the varnish and – most important – deliver the goods, saving the time of paper and printing customers like Joe Jabczynski of Madison Paper.



**“For a high-throughput, competitive business like paper, accurate, lean inventory control is essential... but you need absolute trust in the people and systems that supply you, as well as the products that maintain your productivity. We’ve found we can depend on Ciba Specialty Chemicals.”**

*Joe Jabczynski  
Manager of Purchasing  
Madison Paper Company  
Alsip, Illinois, USA*



**People want their Sunday papers... on Sunday.** And printers want the paper they need to do their job... when they need it. It’s an industry that waits for no one.

So, late one recent Friday, it was a problem when a Ciba Specialty Chemicals customer – Madison Paper’s Alsip plant (in Alsip, Illinois, USA) – found itself running short of a key coating dispersant. Madison

Paper Alsip makes a high-quality coated paper for Sunday color supplements, catalogues, magazines, as well as other large-volume jobs. Downtime isn’t just expensive – it simply can’t happen.

The call came through to the Ciba Specialty Chemicals order desk in Suffolk, Virginia. Summoned from dinner by their pagers, two Ciba employees rushed back to the office, processed the order and arranged for next-day shipment. At Suffolk, they call these “Friday afternoon opportunities.”

Ciba Specialty Chemicals ships more paper and water treatment products, by weight, than all its other products put together. The challenges facing the over CHF 250 billion worldwide paper industry are not unique to it: high volumes, quick turn-around, successful asset management – all contribute to an increased need for accelerated, just-in-time delivery of supplies to prevent excess inventory stocks and to meet customer production deadlines.

Ciba Specialty Chemicals has consolidated and streamlined its own supply chain. Order management, internal replenishment, business data, transport and warehousing are being integrated across the company, to give customers one point of contact, personal or electronic, from which they can oversee all their business with Ciba.

The benefits for Ciba Specialty Chemicals are substantial cost savings, streamlined processes, greater transparency and easier performance measurement – all essential for a company that delivers more than 1.8 million individual orders every year, in sizes from grams to multiple metric tons. But the key to making these systems work for the customer is the attitude and availability of people. Personal commitment – delivering on those “Friday afternoon opportunities” – cements customer relationships, building trust in Ciba’s ability to deliver every day.

**Any company can only operate with the consent of society; for a chemical company in particular, social accountability, like financial performance and environmental responsibility, is fundamental to the business.**

Ciba Specialty Chemicals is, as a stand-alone company, only five years old – but its roots date back several hundred years and, although many changes have occurred, the tradition of responsibility for products and processes, close connection with neighbors, and care for youth education continues.

At the heart of Ciba Specialty Chemicals’ social philosophy is a set of global principles – most importantly, that Ciba is committed to long-term relationships with the communities in which it invests. An unwavering dedication to plant and product safety is obviously essential; but so are openness, mutual trust and community involvement.

Accountability requires consistent, clear and internationally recognized basic standards of social performance. In 2002, Ciba Specialty Chemicals

formalized these standards in a new Social Policy Statement, covering employment conditions, non-discrimination, child labor, environment and community relations. The basic standards are founded on relevant United Nations resolutions, Organization for Economic Cooperation and Development guidelines and International Labor Organization conventions. They operate in tandem with the Code of Conduct, approved in 2000, that governs ethical behavior throughout the Company. These global policies ensure that Ciba follows international best practice in all the communities in which it operates.

Global effectiveness depends on local initiative: Ciba Specialty Chemicals empowers all employees to use its basic standards as a foundation for building relationships with local stakeholders. This has produced a wide variety of locally developed programs to maintain open communication: dedicated call-in numbers in India, local newsletters in the U.K., open house days in Brazil and Indonesia and Community Advisory Panels in the U.S. – to name just a few.

Ciba Specialty Chemicals’ commitment to plant safety is reflected in its global record, its high rating in the industry’s Responsible Care® program and its many awards from government agencies. For example, in the U.S., there are seven million workplaces, but only 800 are recognized for the highest standards of worker and health safety under OSHA’s Star program. Ciba has five plants on that list.

Ciba Specialty Chemicals is also committed to improving society’s understanding of chemistry, by sharing its resources and expertise to help raise awareness of the contribution science can make to society. The Company participates on industry and government bodies to improve regulatory standards and provides information to the general public both through volunteer teaching and in our many plant site visits around the world. In addition, Ciba knows that its future success depends on developing and attracting the best scientific talent around the world.

Therefore, the Company sponsors everything from youth science education initiatives and cross-border apprenticeships, to mathematics competitions in Germany, scholarships in China and school-to-work programs in the U.S.

The combination of global social standards and overall financial performance has led to Ciba Specialty Chemicals’ listing, once again, as a leading chemical company in the well regarded Dow Jones Sustainability Index. The respected U.S.-based social responsibility assessment firm Innovest has again awarded Ciba a high ranking. Ciba plans to continue to build on this success, pursuing a global strategy on social responsibility with strong, sustainable local relationships: upholding international standards, rigorously maintaining plant and product safety, supporting youth education and sharing knowledge. This is how Ciba can make a positive difference in the communities where it operates, creating – here as elsewhere – value beyond chemistry.



The difference  
is relationships

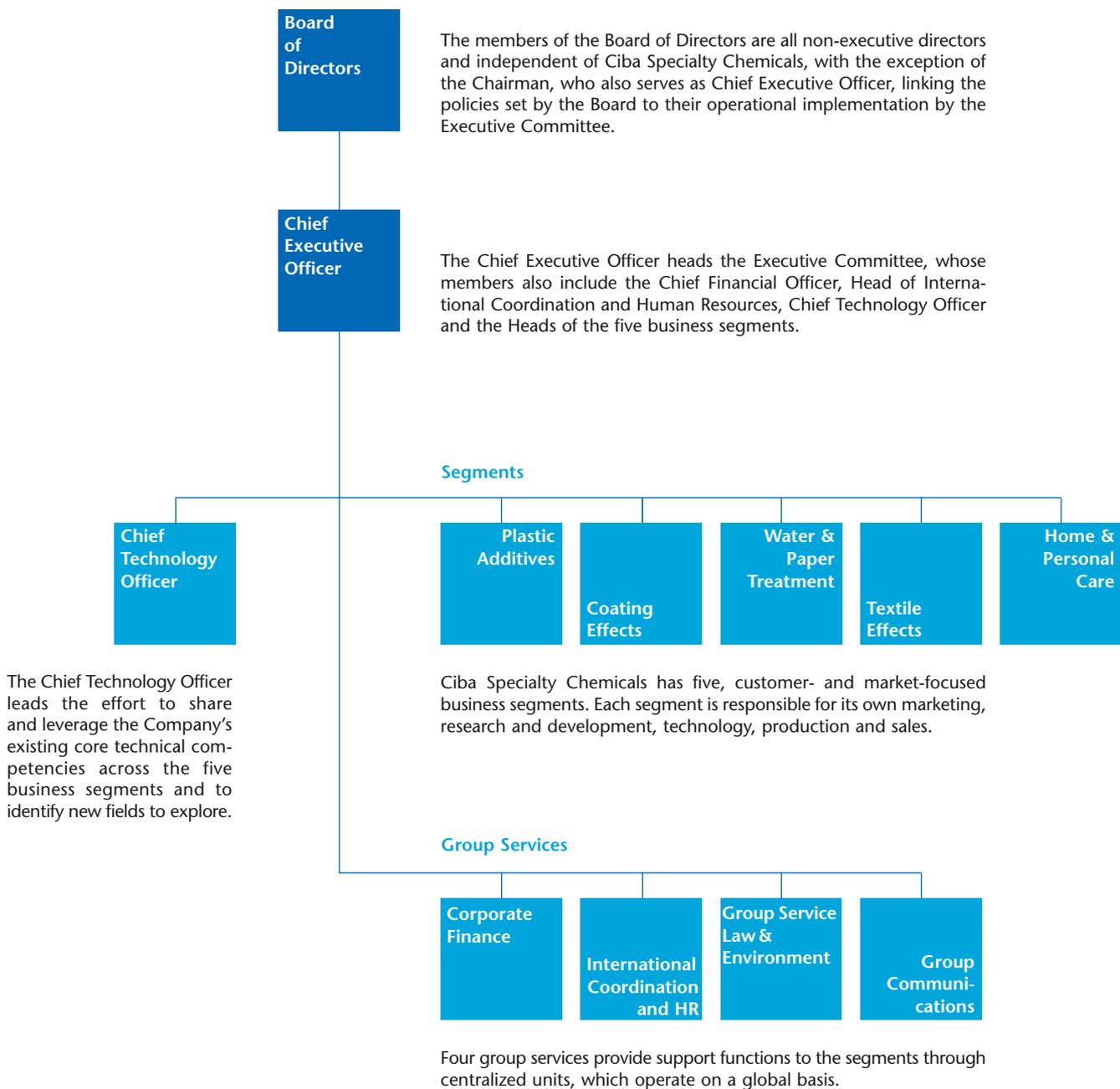
Ciba Specialty Chemicals was a lead sponsor for Expo.02’s “Take Your Future in Hand,” a program in which 400 young people across Switzerland proposed concrete initiatives to improve society – initiatives that were developed with the help of volunteers from business, government, non-governmental organizations, the arts and the media. Leading figures, such as the President of Switzerland, Kaspar Villiger, Nobel prize winner Dr. Jean-Marie Pierre Lehn and Ciba’s Chief Executive Officer Armin Meyer, met the youths to discuss and refine their proposals.



**“I think it was great that our opinions as young people were being asked for and that our proposals were really taken seriously.”**

*Yasmine Heer  
Olten, Switzerland*

# Ciba Specialty Chemicals' Organizational Structure



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Ciba Specialty Chemicals' 2002 Annual Report consists of the Business Review, the Financial Review and the Environment, Health and Safety Report.

The documents are published in both English and German.

This report was produced using Ciba Specialty Chemicals' products contained in papers, inks and other materials.

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**Forward-Looking Statements**

Forward-looking statements and information contained in this Annual Report and in the Management's Discussion and Analysis of Financial Condition and Results of Operations are qualified in their entirety as there are certain important factors that could cause results to differ materially from those anticipated. Such statements reflect the current views of the Company with respect to market conditions and future events and are subject to certain risks, uncertainties and assumptions. 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, introduction of competing products by other companies, lack of acceptance of new products and services by the Company's targeted customers, changes in the Company's business strategy, the Company's ability to continue to receive adequate raw materials from its suppliers 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 and various other factors. Furthermore, the Company does not assume any obligation to update these forward-looking statements.

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Value beyond chemistry