

So you want to  
**know how**  
we create  
innovation...

# Financial summary 2003

## Summary of financial information

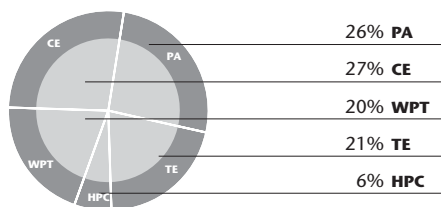
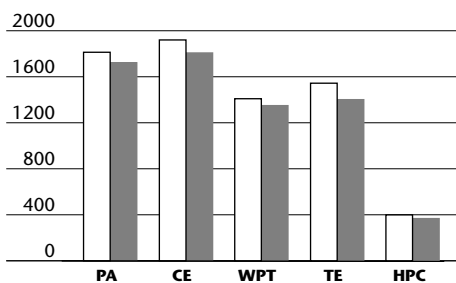
in millions of Swiss francs, except per share data

Year ended December 31,	2003	2002
<b>Statements of income</b>		
<b>Net sales</b>	<b>6 646</b>	<b>7 085</b>
Cost of goods sold	4 579	4 729
<b>Gross profit</b>	<b>2 067</b>	<b>2 356</b>
Selling, general and administrative	1 185	1 247
Research and development	281	294
Amortization of other intangibles	33	33
Income from earnings of equity affiliates	(3)	(6)
<b>Operating income</b>	<b>571</b>	<b>788</b>
Interest expense	(142)	(159)
Interest income	34	49
Other financial expense, net	(24)	(105)
<b>Income from continuing operations, before income taxes and minority interest</b>	<b>439</b>	<b>573</b>
Provision for income taxes	74	154
<b>Income from continuing operations, before minority interest</b>	<b>365</b>	<b>419</b>
Minority interest	5	13
<b>Income from continuing operations</b>	<b>360</b>	<b>406</b>
Cumulative effect of change in accounting principles, net of tax	(16)	0
<b>Net income</b>	<b>344</b>	<b>406</b>
<b>Earnings per share, basic and diluted</b>		
Continuing operations	5.26	5.92
Cumulative effect of change in accounting principles	(0.23)	0.00
Net income per share	5.03	5.92
<b>Balance sheets</b>		
Current assets	4 939	5 314
Property, plant and equipment, net	2 963	3 196
Other long-term assets	3 196	3 282
<b>Total assets</b>	<b>11 098</b>	<b>11 792</b>
Current liabilities	1 780	3 095
Long-term liabilities	5 011	4 267
Minority interest	62	76
Shareholders' equity	4 245	4 354
<b>Total liabilities and shareholders' equity</b>	<b>11 098</b>	<b>11 792</b>
<b>Statements of cash flows</b>		
Net cash provided by operating activities	1 033	1 038
Net cash used in investing activities	(239)	(349)
Net cash provided by (used in) financing activities	(742)	144
Effect of exchange rate changes on cash and cash equivalents	(27)	(74)
<b>Net increase in cash and cash equivalents</b>	<b>25</b>	<b>759</b>

## Sales

in millions CHF

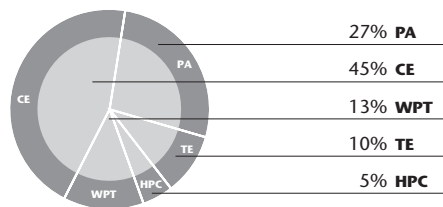
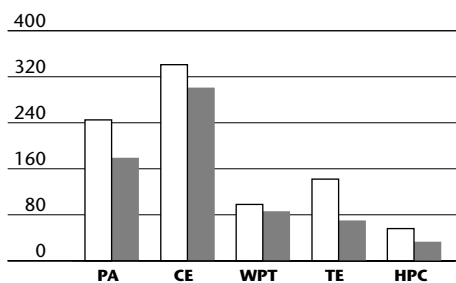
	2003	2002	Percentage change	
			in CHF	in local currencies <sup>1</sup>
PA	1 722	1 813	-5	+1
CE	1 807	1 920	-6	0
WPT	1 349	1 409	-4	+2
TE	1 401	1 544	-9	-3
HPC	367	399	-8	+1
Group	6 646	7 085	-6	0



## Operating income

in millions CHF

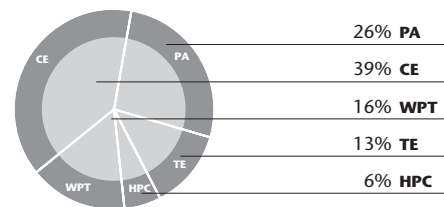
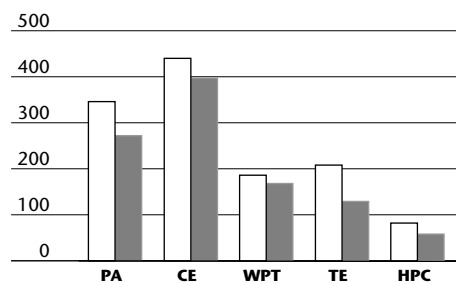
	2003	% of sales	2002	% of sales
CE	300	16.6	341	17.7
WPT	85	6.3	98	7.0
TE	69	4.9	142	9.2
HPC	32	8.8	56	14.0
Corporate	(93)		(94)	
Total	571	8.6	788	11.1



## EBITDA<sup>1</sup>

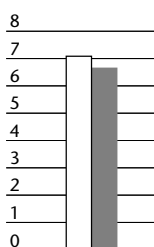
in millions CHF

	2003	% of sales	2002	% of sales
CE	397	22.0	440	22.9
WPT	168	12.5	186	13.2
TE	129	9.2	208	13.5
HPC	58	15.7	82	20.6
Corporate	(87)		(89)	
Total	937	14.1	1 173	16.6



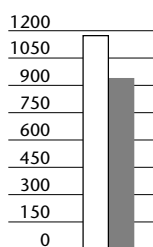
## Group sales

in billions CHF



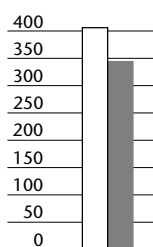
## EBITDA<sup>1</sup>

in millions CHF



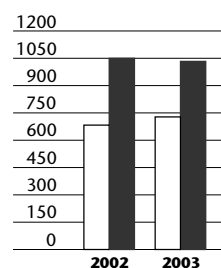
## Net income

in millions CHF



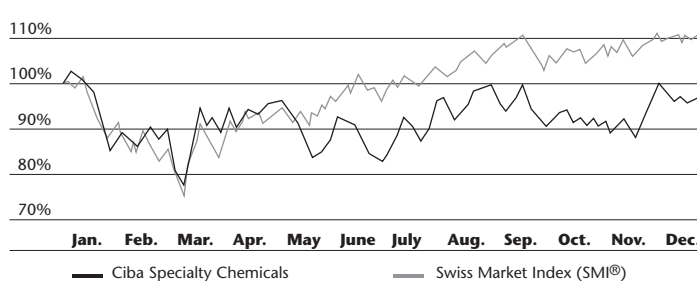
## Cash flow

in millions CHF



## Stock development index 2003

120%



□ 2002  
■ 2003

PA Plastic Additives  
WPT Water & Paper Treatment  
HPC Home & Personal Care

CE Coating Effects  
TE Textile Effects

Free cash flow<sup>1</sup> □  
Net cash provided by operating activities ■

<sup>1</sup>Free cash flow, amounts in local currencies and EBITDA are non-U.S. GAAP financial measures, the use of which is further discussed in the Financial Review in this Annual Report.

Despite volatile market conditions, a sluggish global economy and the continued strengthening of the Swiss franc, Ciba Specialty Chemicals had good results in important areas in 2003 and took decisive steps to significantly improve the prerequisites for sustainable future growth. Ciba generated an exceptionally high free cash flow<sup>1</sup>, substantially reduced its net current operating assets base and further reduced net debt<sup>1</sup>. The current assets reduction program had a negative impact on both operating and net income, which the Company views as an acceptable one-time trade-off for the sizeable generation of cash and the improvement in asset ratios.

Sales in local currencies<sup>1</sup> equaled last year's levels. Due to the continued strengthening of the Swiss franc against most major trading currencies, sales in Swiss francs totaled CHF 6.646 billion, 6 percent below last year's level.

A concerted effort to reduce net current operating assets helped drive free cash flow to CHF 728 million, 7 percent higher than 2002. The substantial improvement in inventories and receivables brought the ratio of net current operating assets to sales from 27.0 percent a year ago to 24.7 percent. This further strengthened the Company's balance sheet.

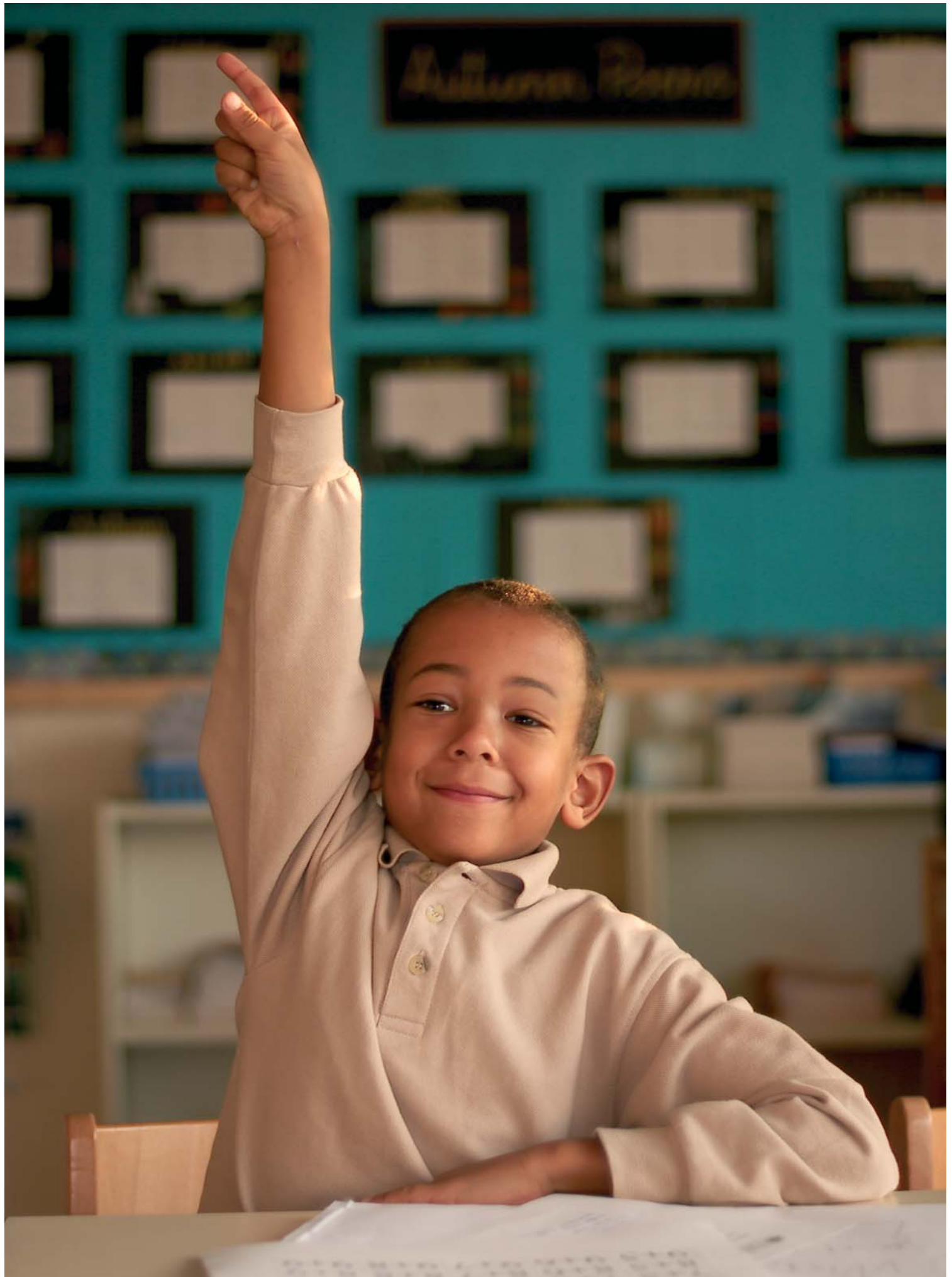
To accomplish this reduction, the Company temporarily shut down a number of manufacturing facilities towards the end of the fourth quarter, leading to a reduction in operating income of CHF 60 million, due to unabsorbed fixed operating costs for those plants. Substantially adverse currency movements, along with higher costs for pensions and insurance, also negatively influenced operating income (which totaled CHF 571 million for the year, or 8.6 percent of sales) and EBITDA<sup>1</sup> (CHF 937 million, 14.1 percent of sales). A year-long program to control costs, including a workforce reduction of 2 percent, helped to mitigate the impact.

In 2003, the Company repurchased 1.3 million of its own shares, in order to increase shareholder value, on the second trading line at a cost of CHF 117 million. Also in 2003, the Company, similar to 2002, maintained a high annual payout to shareholders, through a reduction in the nominal value of Ciba Specialty Chemicals' shares, of CHF 206 million.

Net debt was reduced by 28 percent (CHF 414 million) to just over CHF 1 billion. The Company ended the year with CHF 2.4 billion in cash, providing continued flexibility for acquisitions that meet the previously stated strategic and financial targets. Net income totaled CHF 344 million. Earnings per share were CHF 5.03.

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<sup>1</sup>Free cash flow, amounts in local currencies, net debt, EBITDA and EBITDA margin are non-U.S. GAAP financial measures, the use of which is further discussed in the Financial Review in this Annual Report.



# Letter to shareholders

## Dear Shareholders,

In important areas, 2003 was a good year. Ciba Specialty Chemicals was however confronted by a stronger Swiss franc, business conditions that were especially volatile amidst uncertain geopolitical developments, increased competition from Asia and substantially higher costs for pensions and insurance.

Despite these challenges, we took decisive steps to manage our cost base and streamline processes. We significantly lowered our net current operating assets base, from 27.0 percent of sales in the previous year to 24.7 percent, and generated an exceptionally high free cash flow of CHF 728 million, 7 percent higher than last year's strong result.

Net debt was reduced by 28 percent and is now slightly above CHF 1 billion. Over the past three years, we have reduced it by CHF 2 billion.

We have CHF 2.4 billion in cash, which allows flexibility for acquisitions that meet our strategic goals and profitability targets.

Our efforts to reduce net current operating assets led to temporary plant shut downs with a corresponding negative influence on profitability. Net income, which was also negatively influenced by currency movements, was CHF 344 million, compared to CHF 406 million a year before.

With "Managing for Growth," we have launched a global program for profitable growth across the Company, creating a solid basis for higher top and bottom line growth in the future.

As in the years 2002 and 2003, the Board of Directors will propose at the Annual General Meeting of Shareholders on February 26, 2004, a high CHF 3 per share cash payout through a further reduction of the nominal value of Ciba Specialty Chemicals' shares. In addition, the Board proposes to cancel the shares purchased through the recent share buy-back program, thereby enhancing the underlying value of remaining shares.

Despite the difficult conditions, Ciba Specialty Chemicals again strengthened its position in 2003 and significantly improved the prerequisites for sustainable future growth. On behalf of the Board, I thank our 18,700 employees globally who, through their extraordinary efforts, have again substantially contributed to our success.

## Staying the course in difficult times

Sales in local currencies were equal to last year's level. Due to the strengthening of the Swiss franc against most other major trading currencies, sales in Swiss francs were 6 percent lower, at CHF 6.646 billion. Volume was 3 percent higher while prices were 3 percent lower.

Sales in the Asia-Pacific region led the way. Local currency results were 15 percent higher in the China region, further strengthening its position as the Company's third largest market, and 6 percent higher in Japan. In addition, sales in both South America and Eastern Europe were 5 percent higher in local currencies. Due to our well-balanced industry and product portfolio, we were able to counter the downturn in areas such as textile dyes, inks, whiteners and paper with increases in electronic materials, water treatment, textile chemicals, coatings, polymer products and personal care specialty effects. The first signs of improvement in several of our customers' industries can be seen.

Profitability was influenced by several developments in 2003. As part of an effort to generate cash through the reduction of net current operat-

ing assets, a number of manufacturing plants were temporarily shut down towards the end of the fourth quarter. Therefore, we could not absorb all the fixed costs as would occur under normal circumstances when revenue-generating products are produced, which absorb those fixed costs. This resulted in a negative impact on operating income of about CHF 60 million. We regard this as a one-time consequence to reach a new, lower level of current operating assets – a price we were willing to pay in 2003. We do not expect a similar recurrence in 2004.

Our proactive management of inventories and receivables across all five segments substantially reduced net current operating assets, leading to a further improvement in Ciba Specialty Chemicals' balance sheet. In addition, there was a correspondingly substantial reduction in the ratio of these assets to sales, to 24.7 percent in 2003, which we will aim to sustain in the future.

Significantly, this helped lead to the generation of a very strong free cash flow for the year of CHF 728 million, more than CHF 200 million above our earlier announced target.

Profitability was also affected by strongly adverse currency exchange rate movements, led by the 13 percent strengthening of the Swiss franc against the U.S. dollar. In local currencies, operating income was down 14 percent and EBITDA was 9 percent lower. In Swiss francs, they were down 28 percent and 20 percent, respectively. In addition, the Company faced higher costs for pensions, insurance and salaries, which were partly mitigated through a year-long effort to tightly control expenses. As a result, we could keep administrative costs at last year's level in local currencies. We also reduced our employee base in low-growth regions, while increasing it in higher-growth regions, ending the year with a net reduction of 350 employees.

To summarize these impacts, more than half (1.4 percentage points) of the reduction in the EBITDA margin, which is now at 14.1 percent of sales, was directly attributable to currency impacts, while most of the remainder was caused by plant shut downs and higher pension and insurance costs. So, our underlying development was about in line with our expectations.

In spite of the cost pressures, Ciba Specialty Chemicals maintained support for its all-important research and development efforts.

In anticipation of its debt repayment of approximately CHF 1 billion due in 2003, the Company successfully launched its first Euro-denominated bond issue, for EUR 500 million, at a very attractive interest rate, further stabilizing its long-term financing. In addition, we were successful in further reducing our net debt by CHF 414 million, an improvement of 28 percent.

Net income for the year totaled CHF 344 million, or 5.2 percent of sales. Earnings per share were CHF 5.03.

## Improving core operations

In the absence of substantial upturns in the markets, Ciba Specialty Chemicals also took the opportunity during this difficult year to put itself into a stronger position for improvements in 2004 and beyond. For example, we made further substantial improvements in our integrated supply chain system. We conducted a thorough review of our pension plans that will lead to more reasonable and predictable financing obligations going forward.

*“Ciba Specialty Chemicals will further strengthen its position in Asia-Pacific ... to place Ciba on an even stronger foundation to serve our increasingly global customers.”*

Armin Meyer, Chairman of the Board and Chief Executive Officer



Furthermore, in several plants actions have been taken to reduce capacity and increase productivity, including the recently announced modernization and streamlining measures in the Textile Effects production site in Basel. Our group purchasing team identified new ways to bundle volumes and also changed to suppliers operating out of lower cost markets in Asia, Eastern Europe and in dollar-denominated regions. In 2004, we therefore expect somewhat lower overall purchasing prices for the Group. And just recently, we combined the support structures for Germany and Switzerland into one region, Central Europe, to reduce costs and increase speed and efficiency. All of these steps provide for a more dynamic future.

#### Meeting the new competitive threats

The global economy brings with it not only opportunities, but also new challenges. One of the bigger challenges lately has been highly volatile currency exchange rates, which have continued to adversely impact our profitability margins. Another has been an increase in competition from Asian-based competitors.

Ciba Specialty Chemicals has had considerable success in managing fluctuating currency rates by reducing its exposures through financial hedging as well as by reallocating part of our purchasing to dollar-based markets. Nevertheless, we still have a structural mismatch between our cost base and our sales markets, which continues to work against us. Considerable cost blocks are geographically located in regions with stronger currencies while, increasingly, our sales are coming from areas with relatively weak currencies.

Ciba Specialty Chemicals already has a respectably diversified geographical spread, including a strong presence in Asia-Pacific, where historically it was among the first chemical companies to make significant investments. Now, the Asia-Pacific region is responsible for 28 percent of our sales. Over the next few years, Ciba will further strengthen its position there, with necessary capacity expansion primarily in that region to meet market needs. At the same time, we will continue to make the necessary investments in sites in our traditional markets, such as the U.S. and Europe, to maintain a world class standard and competitiveness across the globe.

This new direction will not only provide us with a better balance between our costs and our sales in the different regions, but it will also allow us to more fully participate in the fast growing Asia-Pacific market and place Ciba Specialty Chemicals on an even stronger foundation to serve our increasingly global customers. Furthermore, we will be better able to meet our Asian-based competitors at their own doorstep.

#### Superior innovation and time to market

To outperform Asian-based competitors, who are increasingly attacking our markets in a vigorous manner, our answer is to rely on outstanding innovation. That is why we have already raised our efforts and resources in this area over the past few years. We have strengthened the focus of our R&D approach and also increased our Research Fund for high risk/high reward projects from CHF 10 million to CHF 15 million. Additionally, we are continuing our emphasis on reducing time to market. Our target is to

satisfy our customers' needs and dreams through close cooperation and intimacy. Clearly, successful customers will make us even more successful.

#### Building for the future with “Managing for Growth”

Ciba Specialty Chemicals took a number of steps in 2003 to further strengthen its overall position on all levels. The Company launched “Managing for Growth,” a major new program to drive top-line growth and to foster a culture among all 18,700 employees of focusing on the over-riding target of profitable growth. All employees attended special workshops during the year, where they identified concrete steps to generate sustainable, profit-generating new initiatives.

In addition, 29 projects were initiated, designed to significantly boost revenue in coming years. These include our new Expert Services business unit, to bring the exceptional group-wide expertise to new and existing customers, as well as our new units to drive sales in the growing Gulf States and Eastern European regions. We have also formed a Sales and Marketing Board to leverage opportunities across our wide portfolio of industry segments.

These projects are targeted to begin showing positive results in 2004 with accelerated contributions coming in 2005. To reach our ambitious mid-term annual sales growth target of 6 percent in local markets, we expect “Managing for Growth” to contribute at least 2 percent of that total, with normal market growth and acquisitions accounting for an additional 2 percent each.

#### Outlook 2004

Ciba Specialty Chemicals sees only the first signs of an upturn in several of its customers' industries. However, the Company sees no signs of a sustainable improvement in global business conditions. Therefore, Ciba will continue with firm measures to control costs globally as well as restrict hiring in lower-growth markets specifically.

For 2004, assuming that business conditions are at least comparable to last year and that currency levels do not worsen, the Company expects sales in local currencies, the EBITDA margin and net income in Swiss francs to exceed last year's levels. Considering the Company's now lowered net current operating assets level, the free cash flow target is between CHF 400 million and 500 million. Should a sustainable economic recovery begin to take shape, the Company would expect a rapid, correspondingly substantial improvement in net income and margins.

I thank you, dear shareholders, for your trust and continuous support. With our substantially improved cost base and capital base, Ciba Specialty Chemicals is well positioned for an economic upturn.

With best regards,

A handwritten signature in black ink, appearing to read 'Armin Meyer', written in a cursive style.

Armin Meyer  
Chairman of the Board and Chief Executive Officer  
Ciba Specialty Chemicals

# Corporate governance

## Executive Committee



From left to right and top to bottom  
**Armin Meyer, Chairman of the Board and Chief Executive Officer**

**Michael Jacobi, Chief Financial Officer**

**Martin Riediker, Chief Technology Officer**

**Brendan Cummins, International Coordination & Human Resources**

**Felix Meyer, Plastic Additives**

**Hermann Angerer, Coating Effects**

**Mark Garrett, Water & Paper Treatment**

**Christoph Biedermann, Textile Effects**

**Tim Schlange, Home & Personal Care**

## Organizational structure

### Board of Directors

Members are all non-executive directors and independent of Ciba Specialty Chemicals, with the exception of the Chairman, who also serves as Chief Executive Officer, linking the policies set by the Board to their operational implementation by the Executive Committee.

### Chief Executive Officer

The Chief Executive Officer heads the Executive Committee.

### Chief Technology Officer

The Chief Technology Officer leads the effort to share and leverage the Company's core technical competencies across the five business segments and to identify new fields to explore.

### Group Services

Provide support functions to the segments through centralized units, which operate on a global basis.

### Corporate Finance

International Coordination & HR  
 Group Service Law & Environment  
 Group Communications

### Segments

Five customer- and market-focused business segments with responsibility for their own marketing, R&D, technology, production and sales.

Plastic Additives  
 Coating Effects  
 Water & Paper Treatment  
 Textile Effects  
 Home & Personal Care



## Board of Directors



From left to right and top to bottom  
**Armin Meyer, Chairman of the Board and Chief Executive Officer**

**Kurt Feller, Vice Chairman of the Board and Lead Director**

**Gertrud Höhler, Member of the Board**

**Uli Sigg, Member of the Board**

**Peter Littmann, Member of the Board**

**Erwin W. Heri, Member of the Board**

**Jean-Marie Pierre Lehn, Member of the Board**

## Corporate governance\*

The Board of Directors of Ciba Specialty Chemicals defines the strategic direction and supervises the overall affairs of the Company, while the implementation of strategies and the day-to-day management is vested in the Executive Committee. The Board meets at least six times per year and has formed four standing Board Committees – Audit, Finance, Human Resources and Compensation, and Nomination.

The Board continues to commit itself to maintaining the highest standards of integrity and transparency in its governance of the Company, reflecting recent developments in corporate governance principles including the Swiss Code of Best Practice and the Sarbanes-Oxley Act of 2002. The Board believes that it is in compliance with well-recognized corporate governance standards, in particular with regard to:

- A Lead Director (to complement the Chairman of the Board) entitled to convene on his own and chair meetings of the Board; in addition, the Lead Director chairs the Human Resources and Compensation Committee; based on interviews with other Board Members, he prepares a review of the Chairman. He also directs meeting modules without the Chairman being present
- Broad supervisory and reviewing powers for the Board, directly supported by Internal Audit

- Board Members who are non-executive and independent of the Company, with the exception of the Chairman
- Board Committees with a majority of non-executive, independent directors
- Having an Audit Committee exclusively comprised of non-executive and independent directors
- The Board performing an annual assessment of itself
- Providing continuous and comprehensive information to Board Members including periodic and yearly reports prepared by management on finances, strategies, research and development, production planning and risk management

### Topics of the Board in 2003

In 2003, the Board focused on the following key topics besides the overall supervision of the Company's affairs and the preparation of the annual accounts and the General Meeting of the Shareholders: Group business strategy, Research & Development strategy, IT strategy, Mergers and Acquisitions, supply chain and "Managing for Growth" projects, analysis of products and strategy of the Company's segments, management development and corporate governance.

\*The Company's full Corporate Governance report appears in the Financial Review in this Annual Report.

# 2003 achievements



January

**30.**

New electronic system introduced to “color-match” inks, paints and plastics



February

**21.**

New generation disperse dyes for polyester offer ultra-high wash fastness across multiple color shades



June

**24.**

Ciba Specialty Chemicals hosts major European conference on new field of ink jet printing for textiles



**26.**

New Ciba® IRGAGUARD® F 3000 series inhibits fungi growth on plastic and rubber surfaces



July

**02.**

New flocculants range offers more effective waste water treatment



**14.**

Ciba® IRGAZONE™ 997 launched to protect rubber compounds against oxidation



August

**04.**

Three new performance and protection effects launched for home and fabric care industry



September

**23.**

Innovative process launched for ink printing on plastics



October

**02.**

New Ciba® TELIOFORM™ retention and drainage portfolio introduced for paper



November

**14.**

Ciba Specialty Chemicals issues R&D Awards for improved polymer performance



December

**08.**

New mid-term target set for portfolio with 33 percent of products less than five years old

# R&D strategy



Dr. Martin Riediker,  
Chief Technology Officer

We hear a lot today about innovation being the cornerstone to success in the specialty chemicals industry. Naturally, it's important – but just how important for Ciba Specialty Chemicals?

*It's the air we breathe. Ciba actually invented the technology that led to many of the industries in which we are now a leader. We build on our 1,500 R&D people in 22 centers around the world to create breakthrough opportunities.*

Other companies speak highly of their R&D programs as well. What sets you apart?

*It takes an innovation culture: creativity and willingness to take risks. We have a large toolbox of competencies, unique to us: UV absorption, light stabilization, antioxidant chemistry, polymer chemistry, photophysics, photochemistry. We leverage those competencies right across the Company to build new product platforms quickly.*

And maintain a full pipeline of new products.

*Of course; but we aren't setting out just to create a product – our goal is to generate technologies that support many new products.*

How would you describe Ciba Specialty Chemicals' technology strategy?

*It has four pillars. First, we want to stay ahead of everybody else in our core competencies. Second, our technology platforms should be unique to us. Third is maximum leverage: we want technologies that cut across the whole product portfolio. And fourth is a healthy mix between mature technologies, growth technologies and emerging technologies, which we can combine to create new product ranges.*

The specialty chemicals industry is going through challenging times; how can you justify a technology strategy that emphasizes creativity and risk taking?

*You hear about companies concentrating R&D effort on core businesses in a tough market. That's not how we see things. It's true that flat markets increase pressure on core business – but there is always potential for growth from innovative technology. And, when markets finally improve, not only do core businesses recover, but you get even bigger growth from innovation. That's why we've maintained our R&D expenditure and established a high risk/high return R&D fund. We're also shifting the emphasis from extending applications of existing technologies to seeking out new advancement technologies.*

Is that a top-down or bottom-up decision?

*It has to be both. People in the segments, next to the customer, understand how industries are changing. But it's also important to have a central technology management process to make sure we get the most value out of our competencies and that we don't duplicate our efforts.*

Is there a formal technology management process?

*Yes. You could also call it "common sense in a structured form." First, we set and review technology strategy, making sure we are optimizing our current competencies and constantly improving our technology position. Next is trend scouting, scanning the commercial and academic worlds for potential threats and opportunities – and indeed some threats can also be opportunities. Then there's technology planning and portfolio management, which bring together the heads of research from all the segments into the Research and Technology Board; they keep our whole portfolio constantly under review. After that there's technology development: bringing to market, not just new products, but new product platforms. Finally, there are technology transfer and lifecycle management, to make sure we get into and out of technologies at the right time for our markets.*

How do you feel Ciba Specialty Chemicals compares with its competitors in R&D?

*I think we're in a very good position; we have a clear technology architecture. We have a highly focused set of competencies, unique to us, with a very wide range of potential applications. Our strategy is in place and operating. We have the base, the expertise and the structure to be successful going forward.*

It's not just what you know, it's how you use it



# Using know-how

Products have limited life cycles, but technologies, properly managed, can give birth to new products and create value year after year. For instance, the green dye used to store optical information on CD-Recordables, one of Ciba Specialty Chemicals' fastest-growing businesses, is a direct result of its expertise in textile dyestuffs, a business dating back 250 years. Or take polyacrylates – chain-shaped polymer molecules that dissolve in water but can attach to other molecules that are not water-soluble. Polyacrylates are used throughout industry as water absorbers and to remove solids from liquids or keep solids suspended in liquids. Although these molecules have been around for decades, Ciba's deep understanding of their form and structure means it has been able to create and patent a wide range of new applications, each offering functionality customers cannot get elsewhere.

Know-how creates incremental improvements to existing products, as well as step changes that open up entirely new markets. Ciba Specialty Chemicals is committed to maximizing leverage from all its technologies: someone working on an application can call on the expertise of researchers across the company. It's a powerful method for driving innovation.

A polyacrylate is just a chain-shaped polymer – in the same sense that music is just a string of sounds. Knowledge and experience let a talented musician create an amazing range of subtle expression. With the same sort of deep understanding, Ciba Specialty Chemicals has extended polyacrylate technology into a dazzling array of functional applications.

## Precision means versatility

Ciba Specialty Chemicals' Unique Molecular Architecture™ offers precise control over every part of building the polymer: chain length, weight distribution, branching and electrical charge. The result is a world-beating suite of individually crafted agents for separating solids from liquids, designed to offer the greatest functionality to industries as diverse as metal-ore and coal mining, papermaking and waste water treatment. Each application has entirely different needs, but all require functional excellence in real-world conditions. Ciba's know-how combines a precise control of polymer structure with an insider's understanding of customer industries.

In papermaking, expertise in collecting solid paper fibers from process water means Ciba Specialty Chemicals can offer customers the ability to run machines faster without compromising the uniform quality and strength of the finished sheet. Here, it's not just a single product that makes the difference: it's providing a two- or three-component system – tuned to the individual mill – that means quality and speed no longer conflict.

## Control the flow

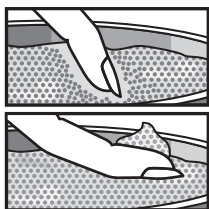
Polyacrylate particles from Ciba Specialty Chemicals are also responsible for such subtle effects as "silkeness," "smooth pickup" and "detangling" in personal care products like skin creams and hair conditioners. These tiny particles, no more than a micron across, absorb water and swell to twice their original size, giving cosmetic formulations a luxurious texture and lustrous appearance without complex or energy-intensive processing.

Coatings, too, benefit from the precise control of flow offered by custom-designed polyacrylates. Thanks to Ciba Specialty Chemicals' unique technology, these versatile chains launched a new generation of dispersants. Here, instead of binding solids together as in water or paper treatment, tailor-made polymers with precisely controlled structures push pigment particles apart, giving coatings more stable pigmentation, intense color, higher gloss and easier processing.

## Printing at jet speed

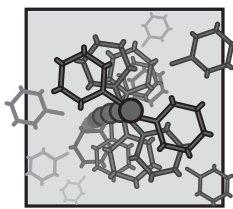
This understanding of the interaction of solids and liquids at the microscopic level is also a key reason that ink-jet printing for textiles has seen 100-fold improvements in speed in the last five years, through the close cooperation between Ciba Specialty Chemicals, machine maker Reggiani and printing-head manufacturer Aprion. High-speed printing requires inks with excellent color strength – but also requires a way to prevent inks from spreading into the textile fiber and blurring the image. A polyacrylate-based pretreatment from Ciba Specialty Chemicals not only levels and seals the fiber surface but also contains active ingredients to fix the inks to the textile after printing and drying. Only by combining the right ink and pretreatment chemistries into a single system can ink-jet printing deliver its combination of speed, color and sharpness on every fabric.

### Ciba® SALCARE® for skin creams and conditioners



Ciba® SALCARE® microparticles turn cosmetic preparations into structured fluids. Suspended in oil, the microparticles absorb water, creating a rich feel on the skin: neither runny nor tacky. Their low resistance to shear force means that when a finger is put in the cream it feels cool and fluid, yet the cream sits securely on the finger when it is taken out.

### Controlled polymerization: a core competency



Ciba Specialty Chemicals' expertise in precise control of polymer structure extends beyond polyacrylates. Working in several partnerships in the plastics industry, Ciba is developing additives that enable new routes toward specialized polymers with unique functionality, as well as additives to modify polymers to offer customers better control over the processing, viscosity, recyclability and mechanical strength of plastics.

# Growing know-how

A lot of the work of Ciba Specialty Chemicals is light management: harnessing, absorbing, filtering, transforming light. Light's a powerful metaphor for the speed necessary to keep at the forefront of innovation. Customers see Ciba as a leader because it stays technologically ahead of them. The goal is to make their innovation possible; to offer new solutions that inspire their next wave of products.

It takes a disciplined but adventurous approach to technology management – and a broad geographical presence. Take photoinitiators for electronic materials: this is an industry that moves at break-neck speed. Ciba Specialty Chemicals' R&D people have to be right there with the customers – in this case, in Japan – exchanging know-how. It's the same with Ciba's R&D presence in Europe, the U.S., in China, in India: it's not just maintaining open communication, it's being where the appropriate technology is emerging.

In technology, growth demands speed. No one simply keeps up with a growth market – to participate, you anticipate. Ciba Specialty Chemicals knows this well from its long experience with the phenomenon that defines speed in our universe: light. Ciba's pigments and dyestuffs filter light with precisely defined selectivity. Its UV absorbers and light stabilizers tame light's harmful energy. Its fluorescent whiteners shift light's wavelength from the invisible to the visible and its greenhouse film additives turn useless ultraviolet light into the rays plants need to thrive. Finally, Ciba photoinitiators transform coatings and materials by capturing light's power to kick-start hardening: technology that responds, literally, in a flash.

## Faster, sharper, brighter

Without photoinitiators, there would be no modern electronics industry. Here, growth and speed have a rule to link them: Moore's Law, which states that functional component density must double every eighteen months. Cellphones, computers and media players become smaller, faster and more capable – displays sharper, brighter and more colorful. And Ciba Specialty Chemicals is there, with photoinitiators for dense multi-layered circuit boards, packing the functionality of a desktop machine into pocket size. Ciba photoinitiators and pigments for displays keep dots crisp and

colors bright, allowing more light to pass through the screen's layers, saving vital battery power. Ciba's essential contribution to high-performance displays and microelectronics puts it at the forefront of a market that's growing by more than 30 percent a year.

## Upholding Moore's Law

The heart of every new machine is the chip – here, advanced generations of photoinitiators from Ciba Specialty Chemicals are helping to crack the limits of functional density. Already, Ciba photoinitiators help define features on microchips that are narrower than the wavelength of light used to create them – but the industry is moving on to yet smaller, ultraviolet wavelengths. The energy intensity of the light itself requires entirely new photoinitiator chemistry; so Ciba is already in the customer's labs, showing what's possible, opening doors... helping uphold Moore's Law.

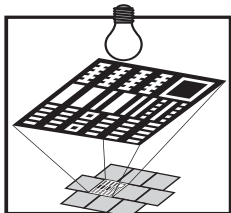
## Curing on demand

Sometimes a technology appears that can reinvent an industry. Germany's 2003 Farbe & Lack award for innovation went to Ciba Specialty Chemicals researchers for their work on photolatent base curing. This innovation, unique to Ciba, brings all the advantages of light-triggered hardening to a wide new range of coating resins and applications, from wood varnishes to automotive repair finishes.

Photolatent bases let coatings manufacturers fine-tune their products, adjusting the curing time from hours to minutes and selecting the wavelength of light to initiate the reaction. Users don't need to bring in high-intensity ultraviolet lights; the curing can be activated with simple tanning lamps or even sunlight. There's also no need for perfect, even illumination; the curing effect ultimately extends even into shadowed areas. This gives the industry the chance to rethink the whole range of coatings resins, greatly improving efficiency, quality and environmental performance.

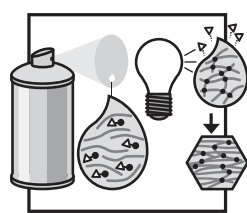
The technology is now in the hands of customers, whose applications will spur further developments. By keeping close contact, from the earliest point, with the industries it serves, Ciba Specialty Chemicals turns award-winning research into award-winning products.

### Photoinitiators for integrated circuit chip manufacture



The working components on any integrated circuit chip are created by light shining through a mask. The photosensitive material on the chip has to respond precisely to transfer the pattern of the mask onto the substrate. This is how transistors and the electrical pathways between them are built – all at scales well below a millionth of a meter.

### Photolatent bases for coatings



Traditional two-component coatings resins required a catalyst to be mixed in just before use. The curing reaction began at that moment, restricting the time the coating could be used and forcing the disposal of any leftover paint or varnish. Photolatent base catalysts remain stable in the coating until illuminated by the chosen wavelength of light; only then is the catalyst released to initiate the cross-linking reaction.

To hit the target, aim through it





The best dreams are those that come true



# Emerging know-how

There's no question that nanotechnology and biotechnology have a great potential for society and for Ciba Specialty Chemicals. But it's important to distinguish between products and technology. There are thousands of technology ideas, from fuel cells to biofeedstocks. The problem is to apply them and bring them to market: to make them economically viable and functionally efficient.

Ciba Specialty Chemicals has been working on nano-scale materials for years in many of its business lines. Catalysis and biocatalysis are among its core competencies. Through its global technology networks, Ciba has pooled expertise in these areas right across all of the segments. It has set up partnerships with customers and academic institutions. The goal is marshalling know-how: keeping sensitive antennae out in the world, using experience to meet the challenges of new technologies – and helping customers make their dream products a reality.

The future of chemistry is being written on its boundaries, as it shades into other sciences. At the nano-scale, where 250 billion particles could fit on the period ending this sentence, normal rules are suspended and materials with completely new properties become possible. Advances in catalyst and biocatalyst science mean industrial chemical processes can eventually reach the complexity and efficiency of those in living organisms. The opportunities in both fields are huge, but so are the challenges – which is why Ciba Specialty Chemicals takes a structured approach to research, concentrating expertise on the areas that show the greatest promise for the Company.

## Tiny scale, big potential

The prospects opened up by nanotechnology appear across all of Ciba Specialty Chemicals' business segments. In Plastic Additives, nanoparticles promise low-weight composite materials with excellent mechanical performance and flame retardance, as well as films for packaging that could reduce transmission of gases and spoilage of perishable goods. Coating Effects is using nanoparticles to help make transparent automotive clear-coats far more scratch-resistant and to achieve entirely new color effects. Water & Paper Treatment has been supplying nanoparticles to paper-makers for decades – the challenge here is to extend the performance of

complete chemical systems to take best advantage of nanotechnology. In Textile Effects, specialized nano-receptors capture unwanted odors, and nano-structures create surfaces that are naturally water- and dirt-repellant. Home & Personal Care is building on the success of Ciba® TINOSORB® M, its submicro-sized sunscreen, to develop new formulations that deliver slow-release active ingredients to the skin through nanocolloids.

The segment research departments have come together in a single worldwide technology forum, the Nano Network, to share expertise and meet the challenges of working with particles so small they are invisible to optical microscopes. Fortunately, these challenges align well with some of Ciba Specialty Chemicals' core competencies: colloid and interface science, stabilization, surface modification, polymer synthesis and crystal growth inhibition technology. It's this vital know-how that turns interesting ideas into real, saleable products – not just for Ciba, but for its customers.

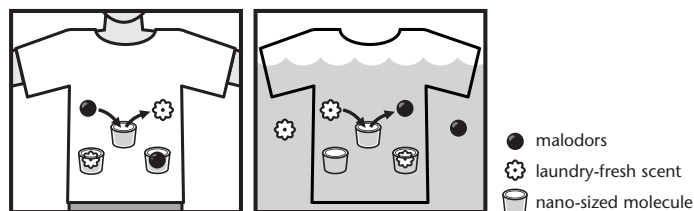
## Toward "greener" chemistry

In the chemical industry, how you do something is just as important as what you do: the search never ends for processes that offer better purity, less waste, improved environmental performance and greater cost efficiency – as well as the chance to create entirely new classes of molecules. Ciba Specialty Chemicals carries on this search through its Group-wide research activities in catalysis and biocatalysis. Ciba's expertise in catalysts is widely recognized and long-standing; the thrust of current research is to supplement that expertise by harnessing the potential of biological agents such as enzymes.

The Group Research unit has completed its survey of available enzymes and its audit of current and pipeline products to gauge their potential for a biocatalytic approach. It has also identified new opportunities in surface modification as well as enzymatic synthesis of monomers. Beyond this lie further exciting possibilities such as renewable raw materials and cascade reactions, where industrial chemistry can go beyond step-by-step synthesis to multiple, continuous processes occurring simultaneously.

New technologies are on the brink of delivering on their promise; the key role of research is to connect them to unmet market needs. With its strong portfolio of proprietary competencies and its commitment to in-depth customer knowledge, Ciba Specialty Chemicals makes that connection.

## Ciba® TINOSAN® GSD: for fresher garments



Ciba® TINOSAN® GSD is a container-shaped, nano-sized molecule for garments with the remarkable ability to bind to body malodors, which are subsequently released when the garment is laundered. TINOSAN GSD maintains "just laundered" freshness in garments during storage and wear. A similar approach can also be used to slow-release antimicrobials and perfumes.

Where does 'I' stop and 'we' begin?



# Sharing know-how

**Brendan Cummins,**  
**Head of International Coordination and Human Resources**

*"Whenever I visit one of our sites, anywhere in the world, I'm struck by two contrasting impressions. First, it's obviously a Ciba Specialty Chemicals site: there are common values and norms everywhere we operate. The other is the strong sense of local community: pride in what's unique about that particular place. Both are good traditions – and promoting both is an important part of my job.*

*Ciba Specialty Chemicals operates around the world; our products are sold into almost every country on earth. We therefore apply international standards of best practice in safety, health, training, employee development and community relations. Ciba strives to promote a shared company culture based on open communication.*

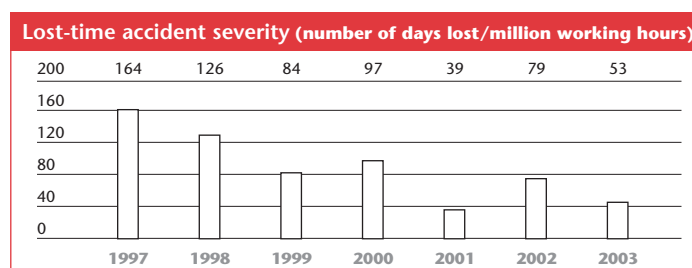
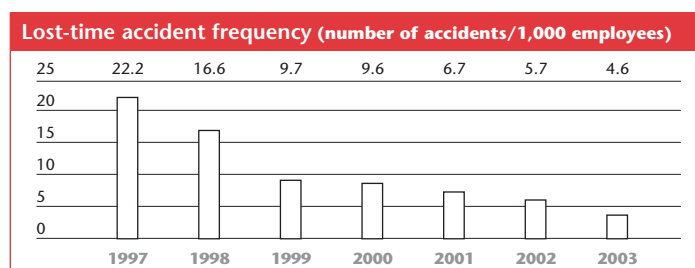
*The foundations of our global standards are Ciba Specialty Chemicals' Code of Conduct and Social Policy Statement, which are posted on our Intranet site ([www.cibasc.com/career](http://www.cibasc.com/career)). These commit us to relevant guidelines issued by the United Nations, the Organization for Economic Co-operation and Development (OECD) and the International Labor Organization (ILO) – particularly in such vital matters as anti-discrimination, environment, health & safety, union representation, child or forced labor, bribery, insider dealing and conflict of interest. We also maintain global policies governing employee benefits, compensation, share ownership, recruitment, sales incentives, employee development and performance management.*

*We consider these policies more than just guidance documents in binders on a shelf. They are based on global principles that we have reviewed, debated and agreed to endorse because they are important to us. We use them to monitor our effectiveness on a consistent basis across the globe. As a socially responsible company, however, we are never satisfied with the status quo and we are committed to further improvements through continuous critical self-assessment. In that spirit, we welcome your comments."*

## People

### Safety

Ciba Specialty Chemicals' global directive for all operations is "Safety First!" The graphs below show the improvements achieved in the frequency and severity of occupational accidents and illnesses since the Company was formed in 1997.



Safety is an essential part of job training. Most training is site-specific, but during 2003 Ciba Specialty Chemicals implemented a new global initiative for more systematic global training. For example, staff at the Grenzach site in Germany have created 18 modules on universal plant safety procedures. These, together with modules being developed at other sites, are available worldwide through the Company's Intranet.

The Occupational Health Management Policy establishes standards and procedures for assessing and monitoring workplace risk and exposure as well as health surveillance. It provides for on-site professionals to evaluate employee health, raise awareness of measures to prevent health risks and improve health, well-being, and quality of life on and off the job.

On-site occupational health and hygiene training is provided for key personnel across the company. For example, over the past three years in the Basel region, more than 100 chemists and plant managers have attended in-depth training courses on occupational health and industrial hygiene.

### Developing a diverse workforce

As a global company, Ciba Specialty Chemicals encourages diversity in its workforce, starting with a non-discriminatory approach to hiring and followed by a consistent approach to management development that offers opportunities for advancement around the world. When high-level managers are sent on overseas assignment, it is expected that part of their job is to train a local successor. Overseas assignments are an important part of management development, helping to build flexibility, communications skills and cultural awareness.

Ciba Specialty Chemicals works for equality between male and female employees. Men and women receive equal pay for the same job function. The company recognizes the need to further improve opportunities for women to pursue high-level careers in technical, scientific and senior managerial fields. Globally, 22 percent of the management development candidate pool and 14 percent of potential key managers are women.

### Communication

Open, clear communication throughout the company is one of Ciba Specialty Chemicals' core values. Communications operates at several levels: face-

# Sharing know-how continued

to-face, electronic and through printed channels such as the employee magazine *Network*. Global company news is translated into 11 local languages and disseminated with regional news both electronically and in print.

Communication also flows upward in the organization through team briefings, environment, health and safety “near miss” reporting, suggestion programs and this year’s “Managing for Growth” workshops, where employees proposed and developed projects for achieving the Company’s strategic goal of profitable growth.

The Company actively supports employee organizations in running their own independent surveys. Recently, all employees in Switzerland were surveyed (around 25 percent of the Company’s workforce). While the survey indicated a high satisfaction level with performance appraisal discussions between employees and managers, it also provided very valuable input into how we could and should do even better – input which we welcome.

## Environment

Environmental performance is covered in the Environment, Health and Safety Report portion of this Annual Report. Many production sites also publish local reports on their environmental performance. Ciba Specialty Chemicals encourages open communication between production plants and neighboring communities and the media.

The Company actively supports the industry’s Responsible Care® program and is implementing its Product Stewardship Guiding Principles, which define how environmental, health and safety aspects of its products are managed throughout their life cycle.

## Community

The aim of social policy is to promote good corporate citizenship. A good citizen is also a good neighbor – willing and able to share information, know-how and time. In last year’s Annual Report, Ciba Specialty Chemicals outlined the Company’s commitment to effective community outreach and youth science education; 2003 saw continued action in this direction. Ciba is now formalizing its goals in addressing local community needs.

Plant safety and environmental performance are naturally the most important issues for communities surrounding Ciba Specialty Chemicals production sites. From “open houses” to dedicated help lines and

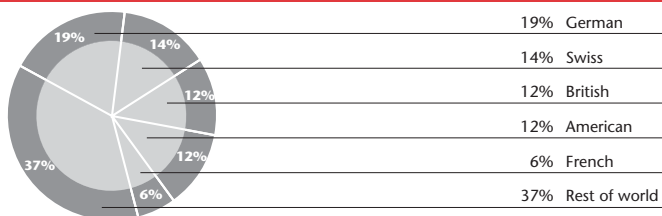
Community Advisory Panels that bring together key local stakeholders, the Company works to maintain open communication and mutual trust with its neighbors.

Ciba Specialty Chemicals will continue to support science education, helping promote the positive role chemistry plays in society. In 2003 in Germany, for the fourth consecutive year, Ciba sponsored a region-wide mathematics competition in Hessen – along with internships, information, tours and practical courses for students and teachers – attracting 4,500 entrants and supported by the Hessian Minister for Cultural Affairs. The winners and their families met for a prize weekend coinciding with the “Open Doors Day” at Ciba’s Lampertheim site.

In Japan, Ciba Specialty Chemicals has been invited to be a key participant in the chemical industry’s Summer School for Chemistry. In Singapore, the Company was approached by the National University of Singapore to be a prime sponsor of its Chemistry Challenge for teenagers; as a result, several of the winners toured Ciba’s research facility and expressed interest in internships with the Company. In the United Kingdom, Ciba gives financial support and employee expertise to “Children Challenging Industry,” a program that brings local schools and industry together to support the science curriculum. Primary school children in communities around Ciba’s facilities have gained a new, strongly positive outlook on chemistry. In France and Italy, some employees devote up to 20 percent of their time teaching chemistry in local schools.

In South Africa, Ciba Specialty Chemicals is a key supporter of the Swiss-South African Co-operation Initiative (SSACI), which provides essential technical and life-skill training to help young people find jobs or set up in business. SSACI was this year’s winner of the national Mail & Guardian Award for Foundations and Trusts. In Switzerland, Ciba supports, among other things, the “School Lab for Kids”, which involved nearly 2,000 children in hands-on experiments that show the fun side of chemistry. And in the United States, Ciba Specialty Chemicals continues to develop its High School Chemistry Institute, an intensive, two-week program for students from across the country, providing an in-depth introduction to college-level chemistry, industrial applications and the use of state-of-the-art analytical tools and techniques. The program has been running for fourteen years, to great acclaim from teachers, participants and parents.

## A culturally diverse management population



Ciba Specialty Chemicals’ management population comes from 48 different countries, representing a broad diversity of cultures. While a majority comes from Germany, Switzerland, Great Britain, the U.S. and France, more than a third come from other nations. Overall, 61 percent are from Europe (covering 21 different nations), 21 percent from the Americas (10 nations), 17 percent from Asia-Pacific (14 nations) and three managers come from countries in the Middle East and Africa.

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The documents are published in both English and German.

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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. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "are expected to," "will," "will continue," "should," "would be," "seek" or "anticipate" or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such statements reflect the current views and estimates 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