

Ciba

ANNUAL REPORT
Ciba Specialty Chemicals

Business Review 2005



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FINANCIAL SUMMARY 2005

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

STATEMENTS OF INCOME

Year ended December 31,	EXCLUDING RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES		INCLUDING RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES	
	2005	2004	2005	2004
Net sales	7 419	7 027	7 419	7 027
Gross profit	2 117	2 171	2 117	2 171
Restructuring, impairment and other charges ^(b)			(703)	(91)
Operating income (loss)	579	612	(124)	521
Financial income and expense, net	(137)	(147)	(137)	(147)
Income (loss) from continuing operations before income taxes and minority interest	442	465	(261)	374
Provision for income taxes	(101)	(115)	(18)	(92)
Minority interest	(7)	(4)	(7)	(4)
Income (loss) from continuing operations	334	346	(286)	278
Income from discontinued operations, net of tax	30	28	30	28
Net income (loss)	364	374	(256)	306
Earnings (loss) per share, basic and diluted	5.57	5.67	(3.92)	4.64
Adjusted EBITDA	1 000	1 006		

BALANCE SHEETS

December 31,	2005	2004
Current assets	4 267	4 381
Property, plant and equipment, net	2 724	3 015
Other long-term assets	3 621	3 600
Total assets	10 612	10 996
Current liabilities	1 891	2 140
Long-term liabilities	4 738	4 636
Minority interests	80	68
Shareholders' equity	3 903	4 152
Total liabilities and shareholders' equity	10 612	10 996
Net debt	1 946	1 840

STATEMENTS OF CASH FLOWS

Year ended December 31,	2005	2004
Net cash provided by operating activities	410	631
Net cash used in investing activities	(292)	(1 051)
Net cash used in financing activities	(526)	(304)
Effect of exchange rate changes on cash and cash equivalents	53	(48)
Net decrease in cash and cash equivalents	(355)	(772)
Free cash flow before restructuring payments	250	401
Free cash flow	168	390

SALES

in millions CHF

	2005	2004	PERCENTAGE CHANGE	
			IN CHF	IN LOCAL CURRENCIES ^(a)
PA	1 938	1 895	+2	+1
CE	1 804	1 818	-1	-2
WPT	2 394	2 014	+19	+17
TE	1 283	1 300	-1	-2
Total	7 419	7 027	+6	+4

PA – Plastic Additives
CE – Coating Effects
WPT – Water and Paper Treatment
TE – Textile Effects

OPERATING INCOME BEFORE RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES^(b)

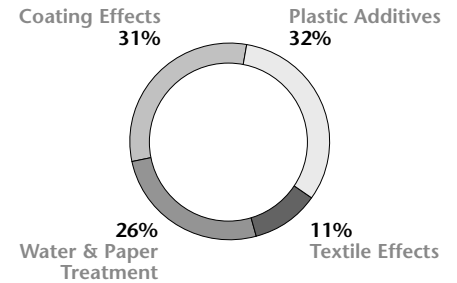
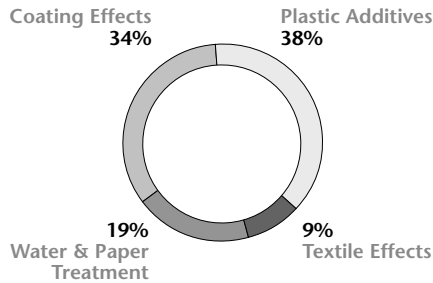
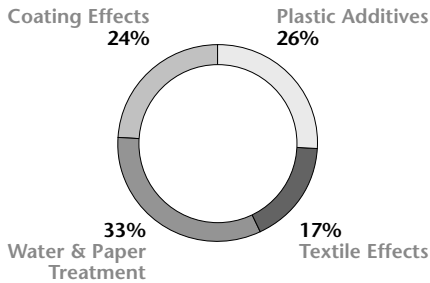
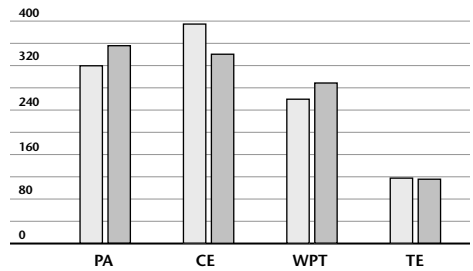
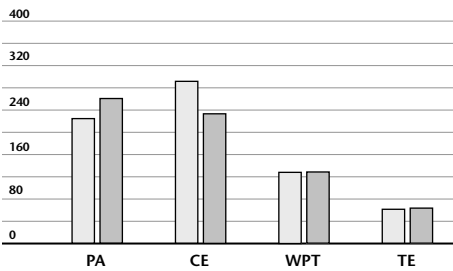
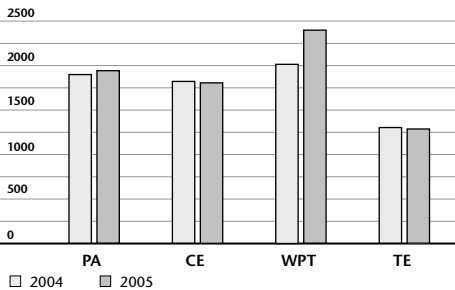
in millions CHF

	2005	2004	PERCENTAGE CHANGE	
			IN CHF	IN LOCAL CURRENCIES ^(a)
PA	260	224	+16	+11
CE	233	291	-20	-21
WPT	128	128	+1	-9
TE	63	61	+4	-6
Corporate	(105)	(92)	–	–
Total	579	612	–	–

ADJUSTED EBITDA BEFORE RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES^(b)

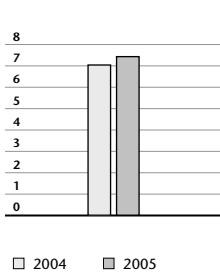
in millions CHF

	2005	% OF ^(c) SALES	2004	% OF ^(c) SALES
CE	340	18.9	394	21.7
WPT	288	12.0	259	12.8
TE	115	9.0	117	9.0
Corporate	(98)	–	(83)	–
Total	1 000	13.5	1 006	14.3



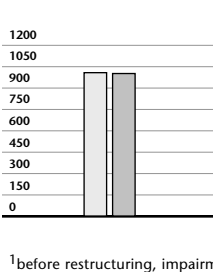
GROUP SALES

in billions CHF



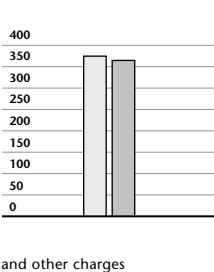
ADJUSTED EBITDA¹

in millions CHF



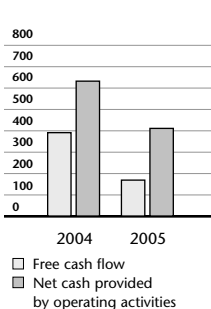
NET INCOME¹

in millions CHF

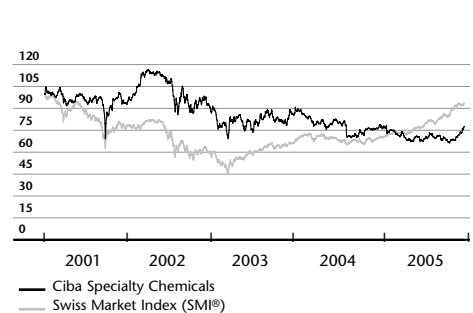


CASH FLOW

in millions CHF



STOCK DEVELOPMENT INDEX 2001-2005



^(a)Change in percent in local currencies reflects the percent change in (i) 2005 results, as adjusted, to remove the effects of fluctuations in foreign currency rates as compared to 2004 and (ii) 2004 results, as reported.

^(b)Restructuring, impairment and other charges include charges incurred in connection with Project Shape, which is described in the Company's 2005 annual report, as well as the CHF 583 million impairment charge relating to the impairment of the carrying values of certain long-lived assets of the Company's Textile Effects segment. This impairment charge is considered a segment activity and is therefore charged to the Textile Effects segment. All other restructuring, impairment and other charges apply principally to the Company as a whole and therefore are included in Corporate, and are not allocated to the segments. For 2005, restructuring, impairment and other charges net of taxes of CHF 83 million would be CHF 620 million and for 2004, restructuring, impairment and other charges net of taxes of CHF 23 million would be CHF 68 million.

^(c)Adjusted EBITDA margin is adjusted EBITDA expressed as a percentage of net sales.

WHO WE ARE

Ciba Specialty Chemicals creates effects to improve the quality of life. These high value effects enhance the performance, look and feel of our customers' products. In addition, we offer a wide range of knowledge-based services and expertise, providing customers with complete solutions to help them succeed. We serve several major markets, including the Paper, Printing, Packaging, Textiles, Automotive, Construction, Electronics, Water Treatment, Agriculture and Home & Personal Care industries.

HIGHLIGHTS 2005

We continued to invest more than 4 percent of sales into Research & Development.

Our new Research & Development Center in Shanghai was opened early in the year: a strategic milestone in building our presence in China.

Plans were announced to invest CHF 125 million into a new additives plant in Singapore to meet strongly growing demand in plastics.

We acquired mirror-finish high reflectance aluminium pigment technology and created a new joint venture in China for pearlescent effects.

Through Project Shape, the integration of Raisio Chemicals was finalized and we continued the alignment of the Textile Effects business to its Asian customers.

Our Textile Effects business is being repositioned to achieve higher sustainable levels of profitability.

The strategic and operational leadership of the company was strengthened with a new structure for the Executive Committee and a new position of Chief Operating Officer.

We reversed a downward pricing trend and mitigated raw material price increases through a drive to raise sales prices across all business lines.

CIBA SPECIALTY CHEMICALS AT A

OUR CUSTOMERS

Ciba Specialty Chemicals offers integrated solutions for many of the world's largest industries, including Paper, Printing, Packaging, Textiles, Automotive, Construction, Electronics, Water Treatment, Agriculture and Home & Personal Care. We follow a tailored approach to individual customer needs – whether it's UV absorbers for sunscreen cream, hardening of coatings and electronic components with UV light, high-performance pigments for architectural paints or process chemicals for paper. At the same time, we bring together the capabilities of the whole company to address the needs of our customers, creating a strategic partnership that links our core competencies with the end-user market.

OUR BUSINESS

Wherever there is the opportunity to provide value beyond chemistry, you'll find Ciba Specialty Chemicals. With our strong portfolio of proprietary technologies, we offer solutions to a broad range of customer needs. Our products protect materials as diverse as plastic, coatings, wood and human skin from the harmful effects of sunlight, heat, air or mechanical stress. We are improving efficiency at every stage of the papermaking process as well as the appearance and performance of the final product. We help companies and cities manage their vital water resources. We create color for plastics, paints, inks, paper, textiles, hair and wood. We use UV light to dry and harden coatings, printed layers and electronic components. Our permanent commitment to chemical research and process development means that we can synthesize complex functional molecules quickly and economically. Innovation drives our business.

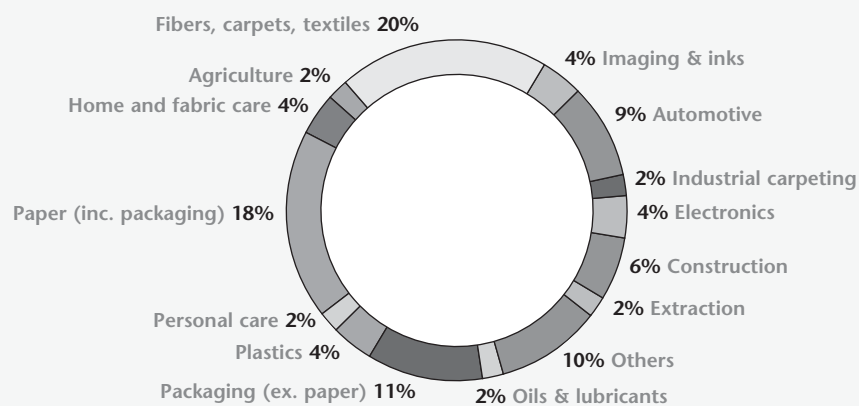
OUR LOCATIONS

Ciba Specialty Chemicals is a global company, with over 80 production sites, 24 R&D centers and 19,000 employees. We are a customer-focused business with a balanced geographical presence.

We were among the first foreign specialty chemicals companies to enter the Asian market, in China in 1886. Over the last two years, we have invested in a new R&D center in China and announced an investment into new production facilities in Singapore; we are also expanding our market position in Latin America, Eastern Europe and the Middle East. At the same time, we continue to have strong customer partnerships in NAFTA and in Europe.

GLANCE

CIBA SPECIALTY CHEMICALS SUPPLIES A BROAD RANGE OF INDUSTRIES



GLOBAL NETWORK OF MAJOR LOCATIONS

- Over 80 production sites in 28 countries
- 24 R&D centers in 12 countries
- 19,000 employees around the world



For more information on our locations: www.cibasc.com/worldwide

DELIVERING ON OUR

Value beyond chemistry



OUR BUSINESS STRATEGY...

Profitable growth demands clear strategy and effective implementation. Strategy anticipates future trends and addresses changes in the market. Implementation delivers – helping customers succeed, securing lasting value.

This year, we have been delivering. Creating solutions, reducing costs, increasing prices. We have sharpened our customer focus; we have extended innovation; we have pursued operational excellence throughout the cycle. We are getting our company into shape.





CHAIRMAN'S STATEMENT

2005 has been the most challenging year for the Company since its foundation. Higher raw material, energy and pension costs added up to more than CHF 350 million. On the other side, we achieved strong sales growth, 2.5 percent sales price increases, CHF 60 million cost savings from Project Shape, and made good progress with the repositioning of Textile Effects. As part of the repositioning, an assessment of the value of Textile Effects led to a significant impairment. With our key priorities – innovation and improving operations – as well as our focused portfolio, we will deliver stronger results going forward. We remain confident in our future, and therefore will once again be proposing a dividend of CHF 3 per share at the AGM on March 2, 2006.

GOOD SALES GROWTH FOR THE YEAR – PARTICULARLY IN ASIA PACIFIC

We saw sales growth of 6 percent in Swiss francs and 4 percent in local currencies. This reflected sales price increases, good

performance in Asia Pacific – particularly in India and mainland China, where we saw double digit growth – and the acquisition of Raisio Chemicals. Increased sales in Europe were acquisition driven, while sales in the Americas were flat.

A major focus for us in 2005 was the increase of sales prices to compensate for significant increases in raw material costs. We managed to turn around an historic annual price erosion of 3 percent, to a 2.5 percent price increase in 2005.

PROFITABILITY IMPACTED BY HIGHER RAW MATERIAL COSTS

Our profitability during the year was impacted by the 10 percent increase in raw material costs, energy cost increases of CHF 40 million and social benefit cost increases of CHF 60 million. Despite this, adjusted EBITDA, operating income plus depreciation and amortization, before special effects (restructuring, impairment and other charges relating to Project Shape

and Textile Effects), of CHF 1 billion, was on a par with 2004. Adjusted EBITDA margin before special effects, was 13.5 percent of sales for the year.

In 2005, we also had the expected restructuring charges of CHF 120 million relating to Project Shape. In addition, CHF 583 million was incurred for the impairment of assets in the Textile Effects business. This impairment is required under US-GAAP if the carrying values of the assets of a business are no longer in line with its enterprise value.

We achieved a solid net income before special effects of CHF 364 million (2004: CHF 374 million). Restructuring, impairment and other charges led to a loss of CHF 256 million.

A STRONG BALANCE SHEET

The strengthening of foreign currencies, mainly the US dollar, against the Swiss franc, led to the increase of some of our

“A major focus for us in 2005 was the increase of sales prices to compensate for significant increases in raw material costs. We managed to turn around an historic annual price erosion of 3 percent, to a 2.5 percent price increase in 2005.”

foreign assets at year end. Almost all of the increase in receivables and more than half of the increase in inventory valuation, is due to this currency translation effect. This inventory valuation also reflects the impact of the 10 percent increase in raw material costs, which in turn along with the higher receivables, significantly impacted our free cash flow, which before restructuring payments was CHF 250 million.

PROJECT SHAPE DELIVERING GOOD RESULTS

Project Shape, our program to integrate Raisio Chemicals and align the Textile Effects business to its customer base in Asia, remains on track. We accelerated the process during the year and savings of more than CHF 60 million were delivered, with a reduction of 650 positions.

Raisio Chemicals is now fully integrated into the Company and we are seeing synergies coming through. The alignment of Textile Effects is also well on track, with profitability levels in the segment stabilizing as a result. Overall, annualized savings from Project Shape are expected to be CHF 180 million by 2007.

REPOSITIONING OF TEXTILE EFFECTS

In August 2005, we announced that the Company would evaluate a number of strategic options to reposition the Textile Effects business. Good progress has been achieved in evaluating internal and external solutions and a final decision is expected within the next few months.

INVESTING IN ASIA

A key part of our strategy is to continue to strengthen our presence in Asia, which remains a core growth area for the business. Earlier in 2005, a new R&D center was opened in Shanghai, which will employ 100 scientists.

We also announced the decision to invest around CHF 125 million in a new production plant for antioxidants for plastics in

Singapore. The new plant will ensure continuous supply to the fast growing markets of Asia Pacific and the Middle East. We expect production start up in early 2008.

FOCUSED ACQUISITION STRATEGY

We continue to develop our portfolio with targeted acquisitions. In 2005 we expanded our Effect Pigments business, with the acquisition of a high reflectance aluminum technology, as well as a joint venture for pearlescent effect pigments in China. This provides us with a very strong presence in the high-value end of the market.

We also strengthened our Expert Services business in the US with the acquisition of a technical conferencing and publications business.

INNOVATION REMAINS AT THE CORE OF OUR BUSINESS

We continued to invest heavily into research and development, over CHF 300 million, which was strongly biased towards Plastic Additives and Coating Effects.

A particular highlight in 2005 was the launch of a new photoinitiator for the very lucrative liquid crystal display (LCD) market. Coming up in 2006 will be the launch of Time Temperature Indicators, a unique pigment technology for food product labeling. We also work with academic partners all over the world to make sure we remain at the leading edge of innovative chemistry.

CONTINUOUS IMPROVEMENT IN ENVIRONMENTAL PERFORMANCE

We reported improvements on all our five key eco-performance indicators relative to production volume in 2005 – energy use, water consumption, global warming contribution, ozone depletion and waste generation. We were also pleased to see that the frequency of lost-time accidents decreased again for the fifth consecutive year.

STRENGTHENING THE LEADERSHIP OF THE COMPANY

In 2005, we adapted the structure of the Executive Committee to reflect the changing needs of our markets and created two dedicated teams – the Chairman's Committee, focusing on strategic development, and the Operations Committee, focusing on the operational management of the business.

As part of this new structure, Brendan Cummins, previously the head of the Plastic Additives segment, was appointed to the new position of Chief Operating Officer, responsible for the operational management of the businesses.

CIBA SPECIALTY CHEMICALS IN 2006

Customer focus, innovation, operational excellence and sustainability remain the cornerstones of our business strategy and we are working hard to make sure we deliver on all four areas. We are not expecting business conditions to improve, but we are confident we will continue to make progress in 2006 and achieve stronger results.

I would like to thank our shareholders, customers and employees for their continuous support.



ARMIN MEYER
Chairman of the Board and
Chief Executive Officer

ORGANIZATIONAL LEADERSHIP

EXECUTIVE COMMITTEE

2 BRENDAN CUMMINS^{1,2}
Chief Operating Officer

5 HERMANN ANGERER²
Coating Effects

¹Member of the Chairman's Committee
²Member of the Operations Committee

3 MICHAEL JACOBI¹
Chief Financial Officer

6 GIORDANO RIGHINI²
Plastic Additives

7 MARK GARRETT²
Water & Paper Treatment

1 ARMIN MEYER¹
Chairman of the Board and
Chief Executive Officer

4 MARTIN RIEDIKER¹
Chief Technology Officer

8 ERIC MAROHN²
Textile Effects



BOARD OF DIRECTORS

1 ARMIN MEYER

Chairman of the Board and
Chief Executive Officer

2 KURT FELLER

Vice Chairman of the Board and
Lead Director

3 PETER LITTMANN

Member of the Board

4 GERTRUD HÖHLER

Member of the Board

5 ERWIN HERI

Member of the Board

6 JEAN-MARIE LEHN

Member of the Board

7 ULI SIGG

Member of the Board



A photograph of a construction site. A brick wall is being covered with large, curved sheets of red corrugated metal. The wall is surrounded by a complex network of wooden scaffolding. Two workers are visible on the scaffolding, one on the left and one on the right, both wearing dark clothing and hard hats. The scene is brightly lit, and the red color of the metal sheets is very prominent.

... FOCUSING ON



OUR CUSTOMERS ...

C is for Customer

The customer stands at the focus; success demands knowing exactly what each customer really needs. Our products and services add value across the spectrum, from the individual behavior of a molecule to the efficiency of an industry. We study and explain, understand and innovate, and help our customers succeed.

Close customer contact lets us anticipate change, aligning our product lines, structure and asset base closer to the market. It helps us shape our business – making sure we stay ahead.

CUSTOMER FOCUS

SHAPED TO THE MARKET

Markets drive products; even the most innovative technology requires deep customer understanding to succeed. It's all knowledge: chemistry, applications, environment, economics. Each form of expertise provides insight into the benefits we bring to the consumer, improving the quality of life. Combined, they create a range of products, solutions and services that customers will pay for, because they see clearly how it adds value.

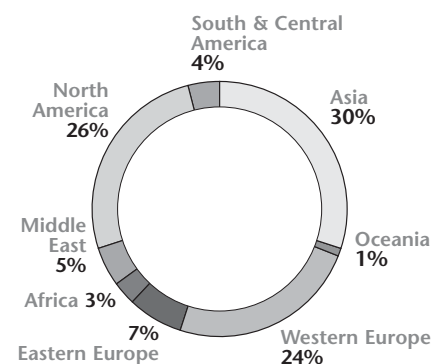
A VIRTUAL PACKAGING COMPANY

The world packaging industry is worth about USD 425 billion a year. The market is expected to grow at an annual rate of 3.5 percent for the next ten years. Around a third of this packaging is paper and a third plastic – and most of it will go through a printing process, use pigments and need protection against damage by light, air, water or oil. This is a key market for Ciba Specialty Chemicals.

Our recently-launched packaging marketing platform aligns the requirements of the packaging industry with the capabilities available across the company. We offer the brand owners – major players in the food, beverage, cosmetic and household product industries – access to our expertise, so that they can specify to their suppliers the high-value effects that will make their products stand out on crowded shelves. We provide tailored solutions from consulting all the way to fully functional prototypes.

We have a uniquely complete offering for these customers: UV filters for plastic bottles; flavor-preserving active food packaging; sophisticated effect pigments and specialist packaging consulting. We have established a virtual packaging company within Ciba Specialty Chemicals, aligned to the market and concentrating on high-value business.

FORECAST WORLD PACKAGING CONSUMPTION BY REGION 2009



Source: Pira International Ltd. 2005

INVESTMENT IN ASIA

Every industry has a geographical shape: certain regions offer the greatest potential for growth. In specialty chemicals, the biggest growth region at the moment is Asia, as customers there scramble to meet a rising consumer demand for higher-value products: cars, houses, packaging, clothing, household goods.



Close contact with the customer, combined with deep expertise in chemistry, produce a spectrum of products to meet precise needs ... like our range of high-value solutions for the cosmetics industry.

Ciba Specialty Chemicals has, among global players in its sector, the highest proportion of sales from Asia. We produce in Asia with 34 plants from China to India, Korea to Indonesia. Our presence expanded this year with the opening of our R&D center in Shanghai and the announcement of a new CHF 125 million investment into a plastic additives plant in Singapore.

Our strategy is clear: profitable growth depends on expanding markets and reduced costs. Asia offers both. That's why we're there.

CONTINUED GROWTH IN EXPERT SERVICES

We see our expertise as an asset which has potential to offer significant return. Expert Services has been growing at speed. In particular, Environmental Consulting, Safety Services and Testing have all seen strong growth in sales volume and Expert Services now has over 350 employees worldwide. In August, we acquired Inter-tech, a US-based conferencing company, to expand our presence in the vital NAFTA market. The Regulatory Services unit has, to date, issued more US FDA food-contact notifications than most of its competitors, building on our significant experience in the food packaging industry.

The success of Expert Services depends on three qualities, each essential to its customers: deep experience of specific but widely-faced industry challenges; global reach to serve global clients; and guaranteed independence from our products business. By leveraging what we know, we have made our knowledge the advantage for a constantly growing number of customers all over the world.

GLOBAL EFFECTS FOR THE GLOBAL DENIM INDUSTRY

Everyone wants denim with character – with that lived-in, funky look that used to come only with years of wear. But achieving exactly the same look from garment factories all over the world has been a headache for the major brands that dominate the USD 50 billion global denim business. In October 2005, Ciba Specialty Chemicals brought to market a new range of denim effects specially tailored to the requirements of this industry. Developed in conjunction with the acknowledged supplier to the denim laundry market, Boehme-Filatex Inc. USA, these offer controllable, consistent looks – from acid washed to wrinkled, antique to destroyed. This uniquely full package includes not only products and processes, but design capability and training as well. Only a glo-

bal player like Ciba, could offer the brand owners such dependable high quality.

EFFECT PIGMENTS GIVE A NEW LOOK TO ESTABLISHED MARKETS

Ciba Specialty Chemicals has a long history in the pigments market, bringing vibrant, high-performance color to plastics, coatings, textiles and many other materials. Now we have extended that capability into an area with strong potential to expand our traditional pigments market: effects pigments. These include high-reflectivity mirror effects for automotive trim and luxury labels; soft, shimmering pearlescent tones for cosmetics and printing; attention-grabbing fluorescent tones for safety clothing, vehicles and objects; and much more.

In 2005, we gained two key capabilities in effect pigments, acquiring the Metasheen® high reflectance aluminum technology for mirror effects and established a joint venture for pearlescent effect pigments in China. The result is not only an increased presence for Ciba Specialty Chemicals in the high-value end of the market, but a synergy with our whole range of traditional pigments, giving them renewed appeal to consumers and renewed advantage for our customers.

**... CREATING
INNOVATIVE**



to call

PRODUCTS...

I is for Innovation

Innovation is the engine of our business. Our research is customer driven, anticipating trends and shaping tomorrow's consumer world. We know that brilliant chemistry is the ultimate source of our success. But we also know that innovation should be a structured process: all things are possible, but not all discoveries lead to sustainable, profitable growth. Our innovation process builds strong technology platforms: materials and methods with a broad spectrum of future applications.



INNOVATION

CORE COMPETENCIES, WIDESPREAD APPLICATIONS

Innovation means developing our broad chemistry, technology and process expertise to tackle individual customer challenges, thinking ahead and finding where we can add most value. We understand, for instance, light in all its forms: we harness its energy or protect against it, transmit or reflect it in functional or decorative colors. This knowledge – expressed through pigments, photoinitiators, filters, absorbers, fluorescent whiteners and more – offers customers a spectrum of application-specific solutions.

NEW TECHNOLOGY REVEALS: HOW FRESH IS YOUR FOOD?

The world buys about 300 billion units of chilled and perishable food every year. Until now, the only way to tell if your meat, fish, salad or pre-cooked meal was still fresh was to trust the “use by” date on the label – but that date says nothing about how the food has been kept during its journey from producer to kitchen.

Now Ciba Specialty Chemicals – in an exclusive development and marketing agreement with FreshPoint, a company started by professors from the German and Israeli universities of Bayreuth and Haifa – is developing Time-Temperature Indicators: unique organic crystal pigments printed directly on labels that change color in a precise way to reveal the accumulated time-temperature history of the product – offering consumers a clear indication of its freshness. The technology capitalizes on Ciba’s proven expertise in UV activation, UV filtration, pigments, ink formulation and food contact regulation.

Consumer testing has revealed a strong desire for such a product; the market, which stretches from food producers to supermarket chains, is huge; and there is no competing innovation as accurate, consistent and cost-effective as ours.

HIGH GROWTH, HIGH VALUE: LIQUID CRYSTAL DISPLAYS:

Liquid crystal displays (LCDs) are everywhere. LCD is a technology used in almost all electronics, from cellphones to laptops to flat-screen televisions. And it depends

on one of our products: a red pigment that creates colorful, lifelike pictures.

Television is the growth market for LCDs; of the 170 million TVs produced this year, 10 percent are LCD – twice the proportion of a year ago. The LCD TV market is expected to see a compound annual growth rate of over 50 percent until the end of the decade, when manufacturers plan to be shipping 100 million units a year.

Achieving this growth will require innovative technology to improve color performance, picture contrast and cost-efficiency. Competition is fierce and every improvement in quality and time to market is essential.

And here Ciba Specialty Chemicals has a unique offering. Not only is our red pigment regarded as standard in the LCD industry, but we will soon be introducing a complementary green pigment. We also have a suite of photoinitiators tuned to LCD applications to solve some of the industry’s greatest manufacturing challenges. These chemicals react with light to allow exact, repeatable and speedy creation of complex, tiny structures in the layers of the screen. The outlines of each of the more than a million pixels on a screen can now be deposited using this photolithographic method – avoiding the previous use of toxic metals, improving clarity and speeding up the production process. Our customers are investing billions to seize their share of a growth market. Our technology helps make sure they won’t be left behind.



Why shouldn't you be sure your food is fresh? Why can't you have the advantages of wood in a plastic? Why shouldn't televisions be as colorful and sharp as real life? Our tradition of innovation means we never accept that a problem is unsolvable.

A NEW CONSTRUCTION MATERIAL DEPENDS ON OUR EFFECTS

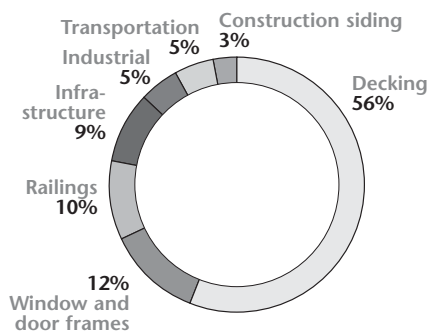
Innovation is also sometimes about taking a new look at traditional materials. Wood has always been an essential part of construction. It has many advantages, but it also has some drawbacks: it cracks and splinters easily, and rots, warps and discolors when exposed to weather. Plastic is a very versatile material which can be resistant to weathering and micro-organisms – but it often lacks the “green image” that wood has for construction. So now wood and plastic can be mixed together to create wood-plastic composites that can be shaped into many useful forms for decking, railing and an increasing number of industrial applications. They can be colored, made weather and fungi resistant, as well as be produced to any length; worked with hand tools and made from recycled forms of wood and plastic that would otherwise be waste.

These many advantages have driven rapid market growth in NAFTA and more recently, in Europe and Asia. The challenge now is to make the transformation from an emerging industry to an established one, with the increased levels of durability and performance required by consumers, as well as the global names in construction that put their brand and credibility behind this promising new material.

Ciba Specialty Chemicals has a uniquely wide range of capabilities for wood-plastic composites: processing stabilizers, anti-fungal and anti-staining agents and flame

retardants, as well as UV light stabilizers and colorants for both plastic and wood components. We also have wood pulp treatment methods from our paper business and interface solutions that ease the handling and compatibility of plastic and cellulose. We can address virtually every quality and performance question about this material – and do it in an integrated, customer-focused way. We are currently working on many projects with industry players, universities and key technology providers around the world, developing the customer and industry solutions for the future.

APPLICATIONS FOR WOOD PLASTIC COMPOSITES MARKET



Source: Society of Plastics Engineers 2004

A TINY SOLUTION TO AN ENORMOUS PROBLEM

Customer focus links the large with the small: understanding how molecular

dynamics and industry behavior interact. Solving the little problems that hold back a business can make a world of difference. These are boom times in mining: growth in China's economy and recovery in construction and electronics have sharpened the world's demand for raw materials, creating a mining market of over 800 billion US dollars.

But the mining industry depends on an increasingly scarce resource: water. Separating valuable ore from worthless rock requires grinding in water and then usually adding a chemical reagent. Once the valuable ore is removed, what's left is “tailings”, a liquid comprising mud, chemicals and water. Traditionally, tailings are pumped into artificial “lagoons” where the solids settle out over a long time. But this has always been poor practice, both economically and environmentally, wasting water and risking contamination.

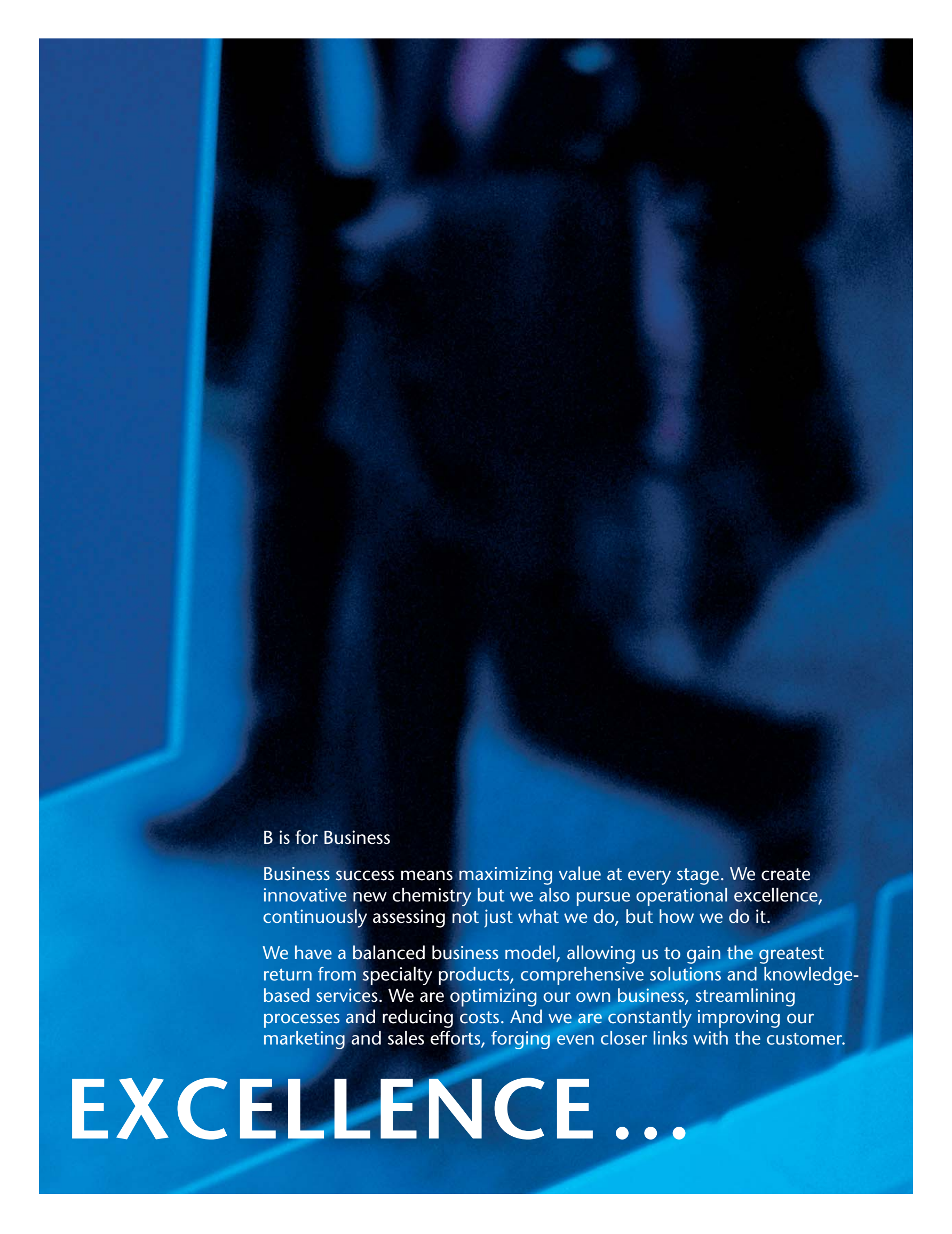
Ciba Specialty Chemicals has the answer: a new range of proprietary “rheology modifiers” that change the flow characteristics of tailings, allowing mines to recover the water speedily yet still being able to pump the residue. Tailings are dry enough to treat, shape and begin re-landscaping in one or two weeks. The savings in water and benefits to the environment are obvious, but the economic gain is equally compelling: mines need no longer spend millions of dollars to build containment lagoons – because we attacked the problem at the molecular scale.

Terminal 1

Information 1



...ACHIEVING
OPERATIONAL



B is for Business

Business success means maximizing value at every stage. We create innovative new chemistry but we also pursue operational excellence, continuously assessing not just what we do, but how we do it.

We have a balanced business model, allowing us to gain the greatest return from specialty products, comprehensive solutions and knowledge-based services. We are optimizing our own business, streamlining processes and reducing costs. And we are constantly improving our marketing and sales efforts, forging even closer links with the customer.

EXCELLENCE ...

OPERATIONAL EXCELLENCE

GENERATING VALUE IN ALL OUR PROCESSES

Every innovation in our business goes through a characteristic life cycle, from its first stage as a unique, patented product to the point where exclusivity gives way to efficiency as the critical competitive advantage. An agile company anticipates and manages this, securing the maximum value from its R&D investment throughout the cycle. The goal is not just to be first – but to last.

BASE POLYMERS: MANAGING THE CYCLE

Base polymer stabilizers – vital ingredients that protect workhorse plastics like polypropylene, polyethylene and polystyrene from degradation – are an important business for Ciba Specialty Chemicals. Our leading position was once based on exclusivity: our unique, proprietary chemistries gave us the lion's share of the market. Then, as relevant patents came to the end of their terms and low-cost competitors entered the market, we needed to manage the product life-cycle through operational excellence, extracting value from an important global market by increasing efficiency and finding new ways to differentiate.

The first step was to re-examine our whole value proposition, aggressively seeking cost reductions and focusing our product offering to concentrate on the essential needs of our customers. We redesigned our manufacturing processes to make them fully integrated, with fewer handling steps, improved yields and thus lower raw material costs. In doing so, we created new physical forms for our key products – easier to use and more effective in the large, high-speed plants of a consolidated global plastics industry. So in taking out costs, we simultaneously improved customer benefit.

Our goal was to become the lowest-cost high-volume manufacturer and distributor of these essential chemicals. In addition to process efficiency, we assured our raw material supply through backwards integration, forming strategic partnerships with key suppliers. The culmination of both efforts will be the establishment of our new CHF 125 million production plant in Singapore, which is located directly next to our supplier, optimizing end-to-end efficiency.

Efficient production in Europe, the Americas and Asia is only part of the story; sophisticated marketing creates maximum value from that efficiency. We have differentiated our offering by supplying customer-specific blends of additives, supplementing our stabilizers to create one-pack solutions appropriate to each customer's products and processes – an added value that bulk competitors cannot offer.

Maturing markets often pass through their phase of overcapacity to one of consolidation, as short-term players drop out. The commodity plastics industry is preparing to double over the next fifteen years: customers are starting to worry about security of supply for key additives. Ciba Specialty Chemicals, with its combination of global efficiency and local, customer-specific



Each step from raw material to final sale is an opportunity to generate and secure value. In an industry where yesterday's breakthrough can be tomorrow's commodity, we examine and improve everything we do – so our processes live up to our products.

solutions, has the answer. Our leading position, originally created by innovation, is being protected by operational excellence.

MAKING THE MOST OF A MERGED BUSINESS

In 2004, Ciba Specialty Chemicals acquired Raisio Chemicals, a paper chemicals business headquartered in Finland. The integration of Raisio Chemicals was finalized during 2005; our paper business is now our largest business line, with a leading position in the paper chemicals market. All the immediate cost savings identified before the acquisition are being realized: sales offices in 19 regions have been merged, debt refinanced at lower rates, and more than 300 duplicated job functions removed.

Positive synergies from the merged portfolio are already appearing in sales, with particularly encouraging results from Australia, Eastern Europe, Sweden and the USA. By concentrating on doing even better what we already do – expanding sales of current products, aligning our organization to customer buying behavior, improving global account management, making the most of our people's expertise and continuously reducing production costs – we are already seeing good progress towards profitability targets. Naturally,

complementary product lines and customer relations made the two companies a good fit; operational excellence makes the merged business even better than the sum of its parts.

WE ARE ALSO A CUSTOMER

Purchasing is an integrated function for us. It is where we take on the role of being a customer. We put a great deal of effort into making this function efficient, as every cent saved in cost goes directly to the bottom line.

We depend on a large network of suppliers worldwide, so we capitalize on the billions we spend in purchasing to secure the best possible deals.

New data tools allow us to track every single purchase and put cross-segment purchasing strategies in place, bundling orders and securing economies of scale.

At the same time, we are constantly exploring the capabilities of new suppliers, especially in Asia. Many companies there can now meet our quality requirements and our stringent standards for environmental, health and safety performance. From our experience as a global producer, we learn how to be an efficient global customer.

MARKETING AND SALES AS CENTERS FOR EXCELLENCE

In 2004, Ciba Specialty Chemicals set up a Marketing & Sales Board to work with all our business lines to make sure we really are a market and customer driven company. The aim was also to make sure we had consistency worldwide and across all business lines, as well as to create synergies from increased cross-segment selling.

This year has seen the fruits of that effort put into action, with uniform training, procedures and job functions being rolled out throughout the company. The aim is to boost both top and bottom line. By applying segmentation strategy we can gain greatest value from our innovation throughout a product's life cycle, while increasing sales efficiency. It is a vital part of being a flexible, responsive company that delivers and secures value effectively – making sure that what the market will pay for and what we do, are one and the same.

A O

...IN AN ACCO



A is for Accountability

A company has many roles – economic, social, environmental. We aim to excel in all three, doing the right things right. Because we believe that good practice is good business.

Accountability means taking responsibility for our actions – as a business, as an employer, as a neighbor, as a socially responsible company. We earn our right to operate every day, setting out clear standards by which we expect to be judged. Our shareholders, employees, customers, and local communities all have the right to expect that we will run our business sustainably and for the long term.

**UNTABLE AND
SUSTAINABLE WAY.**

COMMUNITY RELATIONS

BEING A GOOD NEIGHBOR

Sustainable success takes awareness – of customers, trends, scientific progress, and of the communities around us. A company has many roles, but one of the most important is “neighbor”. At Ciba Specialty Chemicals, we live up to our commitment to good practice both in our global social policy and by fostering local relationships between company and community.

GLOBAL STANDARDS, LOCAL SENSITIVITY

We know that our success can benefit the communities around us; we also know that success depends on anticipating problems and addressing questions, quickly and clearly. The most important interest we share with the community is long-term sustainability. This demands open communication, wide consultation and the recognition that our neighbors’ consent is the license by which we continue to operate.

Our community relations strategy recognizes that each community where we operate differs essentially from others in its culture, needs, and expectations. Rather than impose one central policy, we work locally to build credible, sustainable relationships with neighbors, regulators and local government, fostering mutual understanding of the issues that face both community and company.

Every one of our facilities has a story to tell about how Ciba Specialty Chemicals sustains its role as a good corporate citizen and a good neighbor. Here is just one example of the kind of year-round activities that go into being a good local company:

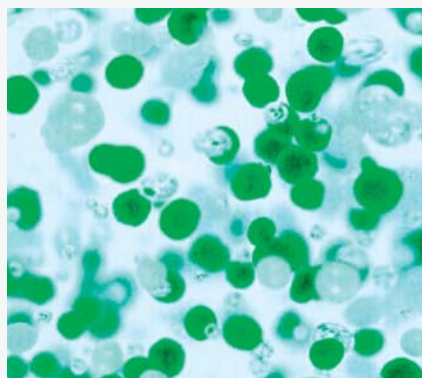
WELCOME TO BRADFORD

Ciba Specialty Chemicals plant in Bradford, England has over 1,000 employees and produces 200,000 tonnes of different products for the Water & Paper Treatment business. It has been part of the community for decades: a bustling, busy place and a significant local employer, connected with many families in the area. Safety demands that access to the site be strictly controlled, but we make sure our neighbors know what is going on behind the gates, keeping them involved and informed throughout the year.

Local involvement is a necessity both for major decisions and routine operations: The Bradford site consults regularly with local government and emergency services; it asks neighbors in for twice-yearly site tours; and it invited local school children to help celebrate its safety success of two years accident free working.

KEEPING COMMUNICATION CHANNELS OPEN

February saw the first of several Community Liaison Committee meetings – anyone can come to these meetings and we welcome any questions. On the agenda for the meeting is the issue of traffic; Ciba



Global standards and local sensitivity: Ciba Specialty Chemicals is dedicated to living up to the expectations of its neighbors around the world – maintaining dialog, providing time and resources, supporting education. Wherever we operate, we aim to be a good corporate citizen.

Specialty Chemicals has put up extra signals and a mirror to improve a hazardous intersection; it also rescheduled deliveries to reduce congestion on local roads at busy times.

GETTING THE INFORMATION OUT

The community newsletter, issued three times a year, reaches 6,000 local homes and businesses. It includes letters from the site director, local news, children's competitions, space for local schools and organizations to publicize events. It also has another purpose: an accompanying safety leaflet explains what to do in case of any concerns and provides contact details of key local services, like the council and environmental agency.

WORKING FOR THE TEAM – AND THE COMMUNITY

The Bradford site has come up with the idea of combining its essential team-building exercises for managers with useful work in the community. The Community Challenge program involves more than 100 members of staff in 15 tasks, each to be planned and executed completely by the team and completed in one day. This year the tasks included: planting trees in a local woods, building flower beds at a community center, creating a

path in a school wildlife garden, decorating a church interior and clearing the overgrown churchyard, painting a school and helping with after-school clubs and reading programs. The benefits for the community are clear, but Ciba Specialty Chemicals benefits too in improving communication with our neighbors.

A COMMITMENT TO HELP

Bradford employees are always ready to give their time or effort for a good cause: demonstrating chemistry in local schools, climbing the tallest mountain in Britain for cancer relief, giving blood, sponsoring a fire engine to be sent to Tanzania. When staff have their annual "Bring Your Child to Work" day, it's clear that this is a group of people with strong ties to their community, their neighbors and the world around them.

MAKING THE LOCAL DIFFERENCE

Ciba Specialty Chemicals approach to community relations is to find out and provide what will really matter to the local community. The Bradford site is only one example; elsewhere in the world this year, other Ciba sites have worked hard to meet local expectations.

In the USA, Ciba Specialty Chemicals staff have set up programs to help middle-school girls studying science, renovated a house for a local family and adopted an elementary school, donating time and supplies. The company also offered building space to the local emergency services for search-and-rescue training. In one of our Italian plants, we have bought the community a new ambulance. In India, we supported polio vaccination by providing vehicles to bring rural people to health centers and donated school uniforms to local children. In Indonesia, we continued to give school scholarships to disadvantaged local families and resurfaced the roads of our neighborhood. Major natural disasters like the Asian Tsunami and Hurricane Katrina in the USA, saw Ciba and its employees provide a quarter of a million Swiss francs and countless hours in volunteer emergency relief efforts. Just a few among many examples, large and small, marking our employees' dedication to local and global concerns.

The overall purpose remains the same: to acknowledge our responsibility to those around us, to meet local expectations whenever possible, assist our community to understand science and the value of chemistry.

PEOPLE

STRATEGY IS A PEOPLE ISSUE

People make our strategy a reality. Creating the right solutions for our customers, developing leading edge innovation and making sure our operations are running to optimal efficiency, depends on the commitment of everyone in the company.

Ciba Specialty Chemicals is a values-driven company: we operate safely, focus on our customers, expect and reward performance. As we shape our business, it is essential that every employee appreciates how our values and high standards contribute both to personal development and profitable growth.

A ROADMAP TO THE FUTURE

Ciba Specialty Chemicals strategy is designed to recognize that change is the norm. We are constantly developing new technologies and services for customers all over the world and the success of this strategy is reliant on making sure we develop and support our employees effectively. Human Resources is a strategic partner of the business, helping implement change, motivating and developing people, shaping corporate culture.

The aim of Human Resources is to make direct, tangible contributions to Ciba Specialty Chemicals strategic goals: employee satisfaction influences customer satisfaction.

We are continuing globally with our long-standing people development and mentoring programs, giving a clear path, agreed at annual performance reviews, to building a future at Ciba Specialty Chemicals.

CHINA: KEEPING OUR BEST PEOPLE

Ciba Specialty Chemicals in China has required a specific approach to the development and retention of our talented employees. It is a very high-growth environment where skilled people have many incentives to change employer. On average, employees are younger and have worked for us for a shorter time than in Europe or the Americas. Loyalty tends to be stronger to the immediate supervisor than to the company; whole teams could move if the team-leader moves. Retention of key people

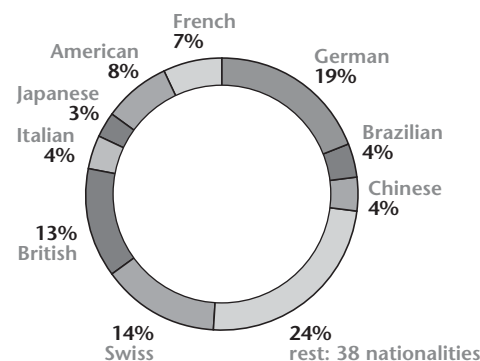
is therefore imperative, both to recoup our substantial investment in training and to maintain our power for sustained growth.

We have also acknowledged the local preference for a more detailed management hierarchy with many distinct promotion steps. Where Western organizations tend to respond well to a flatter structure, we see the value in China of providing a sequence of immediate goals for career development.

Ciba Specialty Chemicals has a number of initiatives in place to retain key staff in China and has succeeded in achieving a better retention rate than many of its major competitors.

Ciba Specialty Chemicals Advancement Training (CAT) is a Chinese program to support an integrated, consistent approach

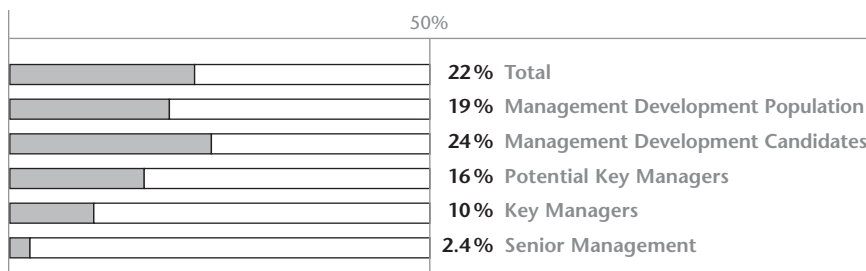
MANAGEMENT DEVELOPMENT (MD)
POPULATION: NATIONALITIES





We want to be the employer of choice, to attract and retain the best people wherever we operate. Broad opportunities, excellent training and a strong culture of honesty and fairness let us offer employees a career full of potential.

GENDER DIVERSITY
(Females in % of total)



to business throughout our workforce, many of whom are still relatively new to the company. Its purpose is to create a shared understanding – across all levels, business segments and functions – based firmly on Ciba's values and performance culture.

The training also fosters skills for personal effectiveness, such as time management, working in teams, managing customer relationships, creative problem solving, understanding complexity in running a business, and leadership. It makes clear that language or technical qualifications are only the beginning of working effectively – that growing a career is a matter of continuous development within the company.

We have set up a 6-12 month program to be rolled-out in 2006, whereby our most talented Asian employees spend time at a first-class business school, run a strategic business project and do a placement in an international Ciba Specialty Chemicals office. The work placement then provides

experience of work in another area of the world, broadening horizons and introducing employees to the meaning of working for a global company. The business school program will be organized in cooperation with two business schools, CEIBS in Shanghai and INSEAD in Singapore.

TRAINING AS A SELF-MANAGED PROCESS

We have also introduced new training and development programs in other regions. In NAFTA, where management structures are relatively flat, we created the Career Development Module, which helps employees define their professional and personal goals and clarifies the steps needed to reach those goals. The module allows people to visualize the shape of their future careers, without the need for very detailed job grading titles.

In Europe, we are continuing with Learning Networks, self-maintained groups of people in different businesses but at

similar stages of their careers. The principle is that people face similar issues at key stages of their careers – sharing experience and information with others in the same situation keeps the group's function relevant and vital. They continue only where the participants themselves see their value; and of 62 groups established since 1999, 45 are still going strong, some for the full six years.

THE CODE OF CONDUCT: IN FORCE EVERYWHERE

The way we behave as a corporate citizen is governed ultimately by our Code of Conduct, which applies to every employee in every country. It sets clear standards of ethical behavior, both within the company and in dealing with customers, neighbors, local officials and the wider business and financial world.

There were two serious reported employee breaches of the Code of Conduct in 2005; they remain under investigation. Two further instances with contractors having conflicts of interest have led us to reassess these business relationships.

Of course, we comply fully with the laws of the countries in which we operate, but the Code of Conduct goes further, making clear both to our employees and our business partners how we view our responsibilities to business partners, colleagues, the environment and society at large. It is available on our website at:

www.cibasc.com/corporategovernance

ENVIRONMENT

A DUTY OF CARE

Long-term success depends on constantly imagining the future: seeking improvements, anticipating risks. As a chemical company, we have both the duty to maintain the highest standards of safety and environmental performance – and the expertise to carry out that duty. We know these are not add-ons to our work – they are the heart of our work.



Ciba Speciality Chemicals is a signatory to Responsible Care® programs

SUPPLIER AUDITS: GLOBAL STANDARDS IN EVERY COUNTRY

Over the past few years of globalization, the provision of raw materials for our industry has been transformed as supply increasingly moves to Asia – particularly to India and China, where not all companies operate to standards we can accept. The objective of our supplier assessments is to identify reliable partners, who produce not only good quality raw materials, but also show respect for the health and safety of their employees, the environment and their neighbors.

In 2005, we assessed four suppliers in India as well as two in Thailand, and reassessed three in China and one in India, to ensure that they had complied with our previous recommendations. We are also expanding this audit program to include South America and Eastern Europe. The audits take place independently from the business or purchasing relationship; they cover all aspects of EHS and labor practice, from materials handling to occupational health, from accident records to employee training and education, from process safety to waste disposal. The reason is clear: we do not just buy from any supplier, we build partnerships with them – and partnerships depend on shared values, standards and priorities.

MAKING ENERGY GO FURTHER

Energy forms a significant proportion of the costs of manufacturing specialty chemicals. High-value products often involve many process steps, making energy a more significant part of final cost. Rising fuel prices are no secret; while we hedge as much as possible of our future costs, there is no avoiding the trend – so we have, for many years, worked on innovative ways to reduce our energy purchases.

We have plants in Europe, NAFTA and China which use waste solvents from our process as replacement fuel, thus saving both fossil fuels and disposal costs. We have installed a biodiesel-fuelled plant in Langweid, Germany to supply both electricity and heat. We are using methane from a neighboring municipal landfill to supply 90 percent of site energy in our Suffolk, Virginia facility in the USA – saving resources and converting a powerful greenhouse gas to less harmful CO₂. Some three-quarters of electricity in Switzerland comes from renewable hydro power, and our Ankleshwar plant in India recently invested in enough wind power to supply 50 percent of its total electricity requirements.



Environmental performance goes beyond good intentions. It means constant scrutiny of what we are doing and of the partners we choose to work with. All action involves risk – but we can keep that risk to a minimum with vigilance and foresight.

Compulsory trading in CO₂ permits began in the European Union in January 2005 and Switzerland also plans to introduce a CO₂ levy. In five of our European plants we reduced our CO₂ emissions to below our allocated limits – and even expect to generate a surplus of CO₂ certificates in 2006.

At the same time, we have incorporated rigorous energy targets into our product development and process design. In a world of high fuel costs, energy efficiency remains as much a necessity as innovative chemistry.

KEEPING RISK OFF THE ROAD MAKES GOOD BUSINESS SENSE

A company that produces and sells globally also transports globally. We receive and ship, by road, rail, sea and air, a vast number and volume of materials – over 3 million tonnes, about 50 percent of which are classified as dangerous. We take this responsibility very seriously.

We have Dangerous Goods Safety Advisers on each of our sites, linked in an information and training network to share best practice. We audit transport companies that handle our goods. And

we systematically assess each transport link to determine how we can reduce risk – either by cutting out handling steps, choosing different packaging methods or converting to inherently lower-risk methods: rail rather than road, sea rather than air. Often, the lower-risk transport alternative is also the more cost-effective; good risk management practice can also be good business practice.

REACH: CHALLENGE AND OPPORTUNITY

In November 2005, the European Parliament passed the first reading of REACH (Registration, Evaluation and Authorisation of CHemicals) – draft legislation governing the production and import of chemicals in the European Union. The proposal requires manufacturers or importers to register and provide comprehensive data (test results, usage information, risk evaluation and risk management proposals) for all chemical substances produced or imported in quantities over one tonne.

Ciba Specialty Chemicals fully supports the aim of the legislation to ensure the safe use of chemicals and encourage the replacement of hazardous ones. We have been involved with the evolution of

REACH since 1999 and have contributed, both individually and through the CEFIC, the European industry body, to the Commission's consultation process; we participated in detailed studies of REACH's workability conducted by the consultancy KPMG. The studies involved 25 of our products and looked at the impact of the regulations in detail: the resources and time we would need to comply, the cost implications, and the effect on our global business. Having this detailed understanding means we can look at our whole portfolio and make sure we are prepared for the legislation. Insight Investment, the socially responsible investment arm of HBOS, in fact looked in more depth at seven firms' exposure and readiness to comply with REACH, and concluded that just two companies were well prepared, Ciba being one of them.

2005 ENVIRONMENT, HEALTH

IMPROVEMENT IN ENVIRONMENTAL IMPACT

Ciba Specialty Chemicals continues to report on its five key indicators of environmental impact. 2005 saw the acquisition of Raisio Chemicals and a significant increase in production. This brought an absolute increase in environmental impact, but a continued decrease relative to production volume. Higher raw material costs reduced our added-value figures and thus increased our environmental impact relative to value added. These trends reinforce our determination to pursue further improvements in efficient energy use and waste reduction.

CONTINUED STRONG PERFORMANCE

The Environment, Health and Safety (EHS) data presented here was collected for the period 1 October 2004 to 30 September 2005, using our global SEEP (Safety, Energy and Environmental Protection) reporting system.

Data was reported by 63 sites and two regional centers, representing all our production sites and all joint ventures in which we have management control. Data from these joint ventures was consolidated to 100 percent regardless of our actual holding. 13 sites, previously belonging to Raisio Chemicals, are reporting data for the first time. We consolidated the data in compliance with United Nations (UNCTAD) Guidelines on Eco-Efficiency Indicators.

All five parameters – energy use, water use, global warming contribution, contribution to ozone depletion and waste – show an increase over 2004. This is not surprising, however, as the acquisition of Raisio Chemicals added 13 sites and therefore production volume increased by 40 percent.

Despite the increase in production, net value added (before accounting for currency exchange variations) fell by 7 percent in 2005. This was mainly due to higher raw material prices and a change of product mix. The parameters related to net value added have therefore deteriorated slightly.

ENERGY USE in absolute terms increased by 4.5 percent, but decreased by 25 percent relative to production. The substitution of waste for fossil fuels continued: the quantity of energy produced from waste increased from 522 terajoules in 2004 to 599 terajoules in 2005.

WATER CONSUMPTION increased in absolute terms by 7 percent but was reduced by 23 percent relative to production.

GLOBAL WARMING CONTRIBUTION increased by 5 percent in absolute terms but decreased by 24 percent relative to production. Projects continue to reduce overall utilities consumption as well as substitute waste for fossil fuel. We have already achieved our target of reducing the emissions of carbon dioxide by 10 percent per tonne of product by 2006.

OZONE DEPLETION contribution remains very low – only half of the 2003 figure – although it increased as a result of the acquisition of Raisio Chemicals. Programs continue to ensure that cooling circuits in refrigerators and air conditioning units are leak-tight and are being expanded to the newly-acquired sites.

WASTE generation is up by 7 percent. Relative to production, it decreased by 22 percent. For the first time, the ratio of waste to production is significantly below parity, at 0.78.

* NVA: Net Value Added – NVA is calculated in Swiss francs, using the formula: sales, minus costs of goods and services purchased, minus depreciation.

NVA based on 2000 – The eco-efficiency indicators are also shown at the currency exchange rates in effect in 2000 for comparison purposes.

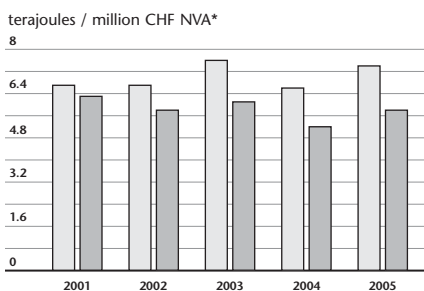
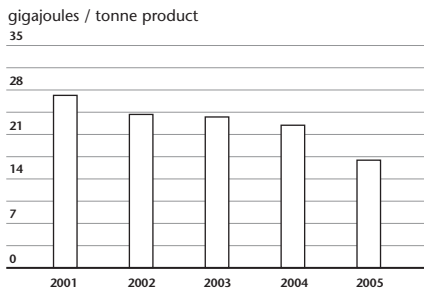
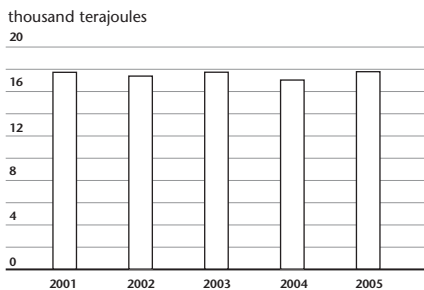
AND SAFETY PERFORMANCE



Sustainable success is not purely a financial matter. Excellent performance means constantly assessing our processes, our working methods, and their individual impacts, both on the environment and the bottom line.

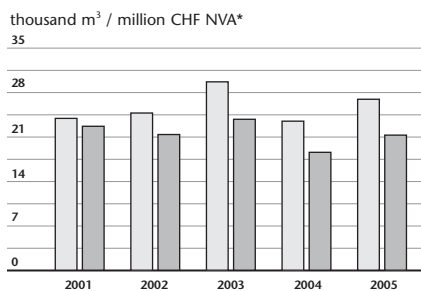
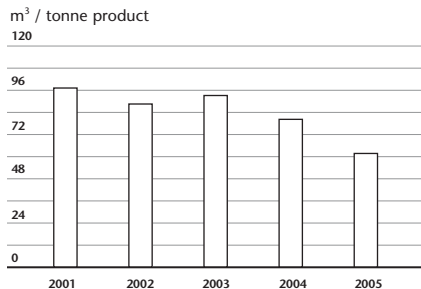
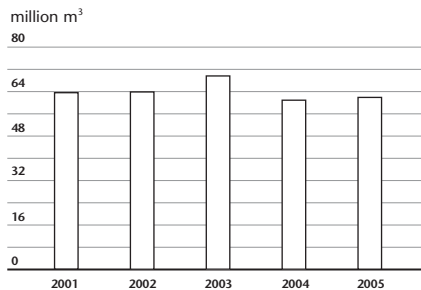
ENERGY REQUIREMENT

Total primary energy purchased by sites and by third parties to provide the Company with steam and electricity. Waste used as fuel is not included.



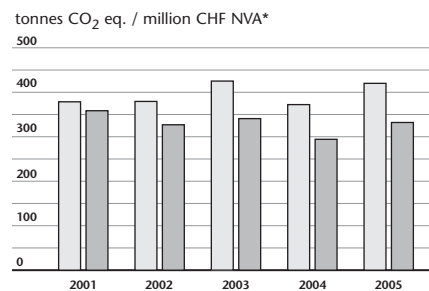
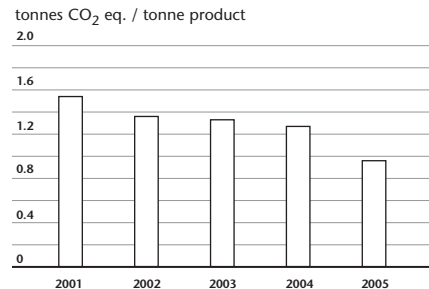
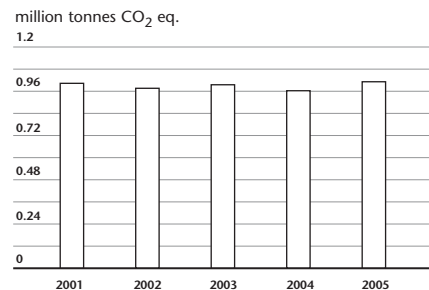
WATER USE

Total water entering sites, except rain and storm water.



GLOBAL WARMING CONTRIBUTION

Global warming gases emitted by or on behalf of the Company, expressed as carbon dioxide (CO₂) equivalents (and calculated in accordance with the Kyoto Protocol).



2005 ENVIRONMENT, HEALTH

A COMMITMENT TO EXCELLENCE

Ciba Specialty Chemicals strives for a leading position in all its markets and business segments. An important element to ensure business leadership is the successful integration of environment, health and safety (EHS) management into all relevant business processes. We will focus on product and process innovation, supply chain management and customer support to continuously improve the EHS performance of our products and services. We are committed to exploring all reasonable opportunities to apply our EHS strategies and policies in close cooperation with our customers and suppliers for the benefit of all parties.

VALIDATION STATEMENT

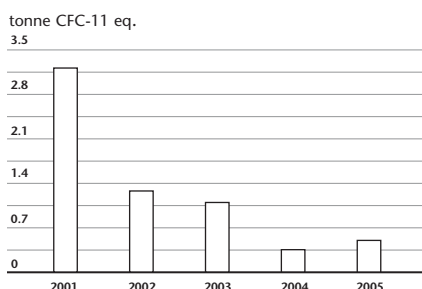
The Eco Efficiency data was validated by Ellipson AG.



The full statement can be found under www.cibasc.com/ehs

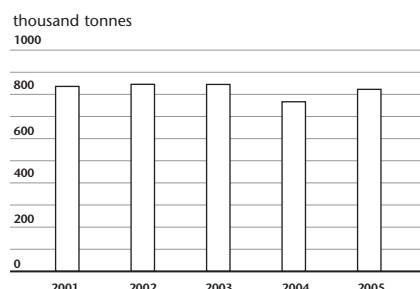
CONTRIBUTION TO OZONE-DEPLETION

Total emission of such chemicals as defined in the Montreal Convention, expressed as CFC-11 equivalents.

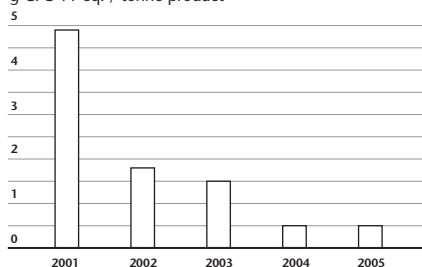


WASTE

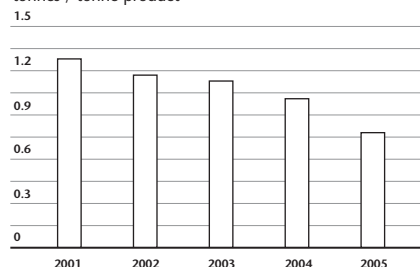
All Company-generated wastes. Further details are available at www.cibasc.com/ehs



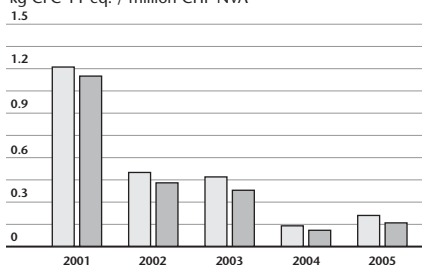
g CFC-11 eq. / tonne product



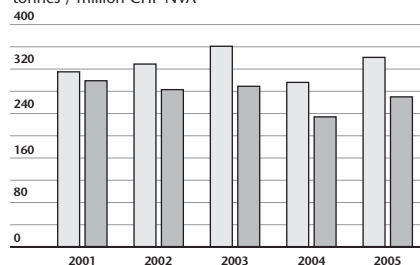
tonnes / tonne product



kg CFC-11 eq. / million CHF NVA*

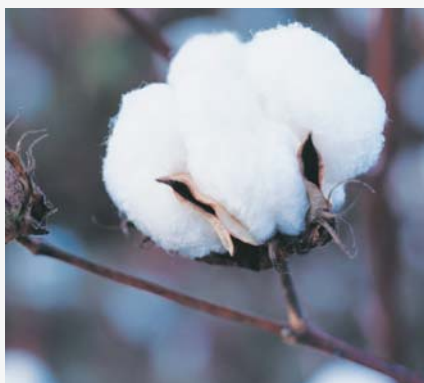


tonnes / million CHF NVA*



* NVA: Net Value Added
 NVA based on 2000 currency exchange rates

AND SAFETY PERFORMANCE



Innovation and growth drive continuous change in how we reduce our emissions, how we ensure a safe working environment around the world and how we generate the energy we need.

LOST-TIME ACCIDENTS 2005

In 2005, Ciba Specialty Chemicals kept its very good lost-time accident record. 39 production sites reported (reporting period: 1 October to 30 September) zero lost-time accidents (2004: 31) and a further 14 had only 1 lost-time accident to report (2004: 9).

THE FOLLOWING SITES REPORTED ZERO LOST-TIME ACCIDENTS:

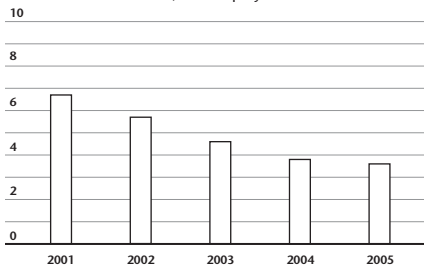
Thomastown	Australia
Wetherill Park	Australia
Pischelsdorf	Austria
Camaçari	Brazil
Paulinia	Brazil
Guangzhou	China
Jiangsu	China
Panyu	China
Qingdao	China
Shanghai	China
Shekou	China
Bogota	Colombia
Kaipainen	Finland
Mietoinen	Finland
Sens	France
Grenzach	Germany
Grimsby	Great Britain
Fraijanes	Guatemala
Ankleshwar	India
Goa	India
Gandaria	Indonesia
Merak	Indonesia
Ai-oi	Japan
Chiba	Japan
Doobon	Korea
Ulsan	Korea
Atotonilquillo	Mexico
Heerenveen	Netherlands
Maastricht	Netherlands
Guturribay	Spain
Schweizerhalle	Switzerland
Kaohsiung	Taiwan
Mahachai	Thailand
Berwick	USA
Charlotte	USA
Newport	USA
St. Gabriel	USA
Suffolk	USA
West Memphis	USA

WORLD SAFETY DECLARATION: A COMMITMENT TO BEST PRACTICE

The first responsibility of an employer is the safety of its employees. In 2005, Ciba Specialty Chemicals became a charter signatory to the World Safety Declaration, a commitment by many of the world's leading manufacturers to improve workplace safety throughout the world and promote collaboration between companies on safety issues. We welcome the opportunity to re-affirm our belief that every individual has the right to a safe workplace.

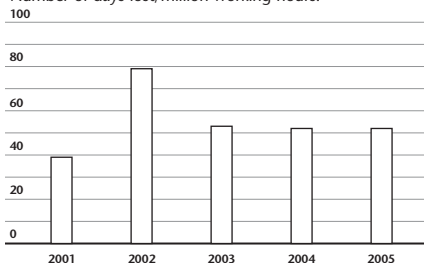
LOST-TIME ACCIDENTS FREQUENCY

Number of accidents/1,000 employees.



LOST-TIME ACCIDENTS SEVERITY

Number of days lost/million working hours.



CORPORATE GOVERNANCE

ENSURING OUR STRUCTURE REFLECTS GOOD GOVERNANCE

Good corporate governance requires a clearly defined relationship between strategic and operational functions. At Ciba Specialty Chemicals, the Board of Directors defines the strategic direction and supervises the Company's overall affairs. The Executive Committee has two elements: the Chairman's Committee, led by the Chairman of the Board and CEO, focusing on strategic development; and the Operations Committee, under the leadership of the COO, focusing on the operational management of the business. This structure combines independent strategic decision-making with efficient, speedy implementation.

The Board usually meets eight times per year and has formed four standing Board Committees – Audit, Finance, Human Resources and Nomination, and Compensation. 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 counter-balance the combined mandates of Chairman and CEO) who chairs meetings of the Board which only the non-executive members of the Board are attending. He also leads the non-executive members of the Board in all matters that require a separate discussion and decision making process. In addition, the Lead Director chairs the Compensation Committee. Based on interviews with other Board members, he prepares a review of the Chairman and CEO. He may act as a liaison between the Board and the Chairman in delicate matters
- Broad supervisory and reviewing powers for the Board, directly supported by Internal Audit
- Independence of Board Members who are all non-executives of the Company, with the exception of the Chairman
- Independence of Board Committee Members who are equally all non-executives, with one exception being the Chairman serving on the Human Resources and Nominations, and Finance Committees
- Having Audit Committee Members who are all non-executives with significant expertise particularly in the area of finance
- Having Compensation Committee Members who are non-executives with broad practical experience in the area of employee and executive compensation
- An annual self assessment of the Board
- Receiving and providing continuous and comprehensive information including periodic and yearly reports prepared by management on finances, strategies, research and development, production planning and risk management

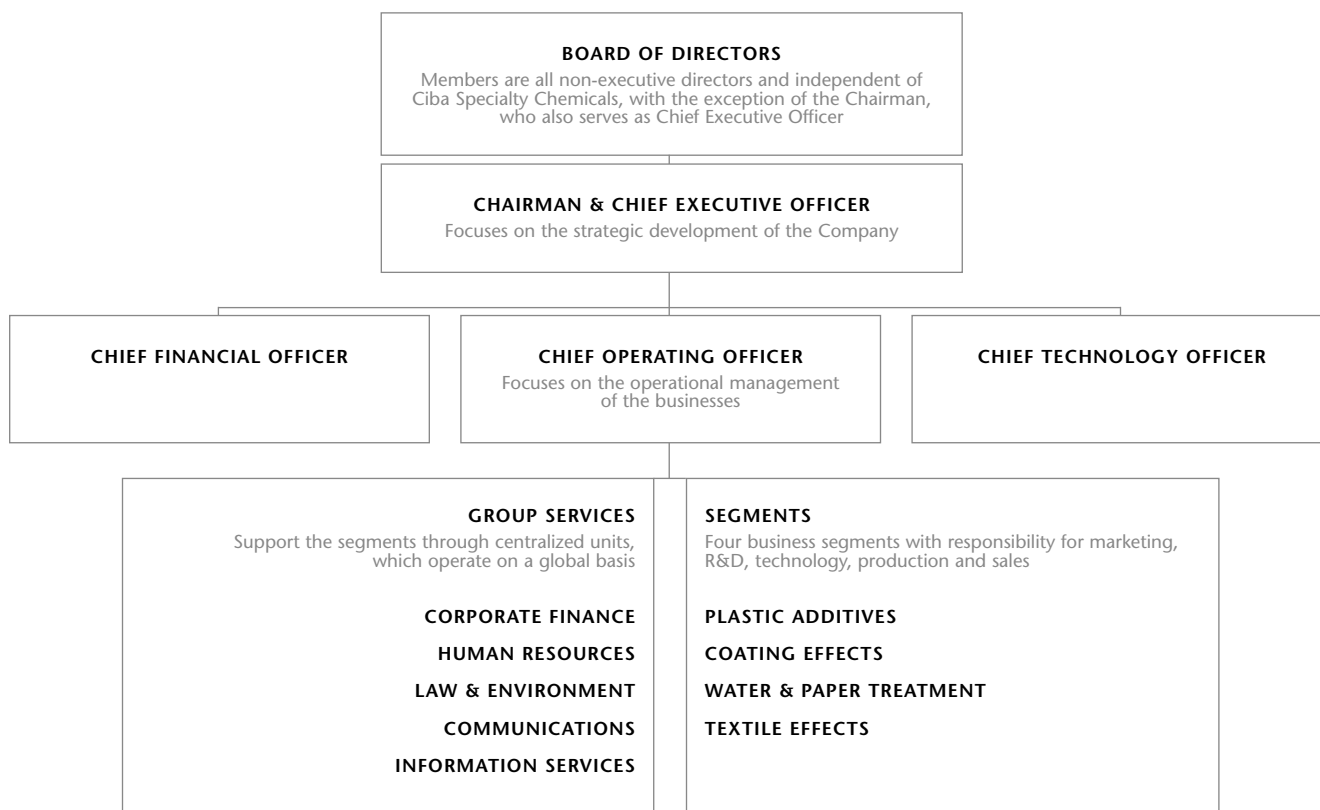
TOPICS OF THE BOARD IN 2005

Apart from the ongoing overall supervision of the Company's affairs, corporate governance and the preparation of the annual accounts and the Annual General Meeting of the Shareholders, the Board put particular emphasis for the financial year 2005, on the following topics: Group business strategy, mergers and acquisitions, positioning of segments, investments in Asia, developments in China, improvements in chemical technologies, legislation in the area of registration and authorization of chemicals (REACH) and the structure of the Executive Committee.

The Company's full corporate governance report appears in the Financial Review in this Annual Report.



Good governance is clear governance. Our structure is designed to provide the leadership, flexibility and transparency needed for a global company.



www.cibasc.com

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Ciba Specialty Chemicals' 2005 Annual Report consists of the Business Review and the Financial Review.

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.

The 2005 Annual Report was developed and written by Group Communications, Corporate Finance and Group Service Law & Environment, Ciba Specialty Chemicals.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements and information contained in this Report 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.



Ciba

Value beyond chemistry