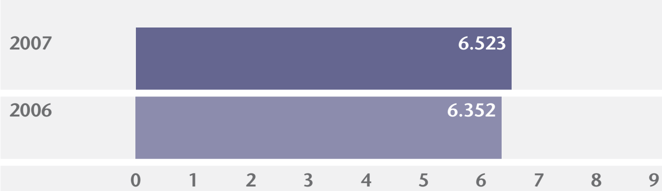
Ciba

ANNUAL REPORT 2007

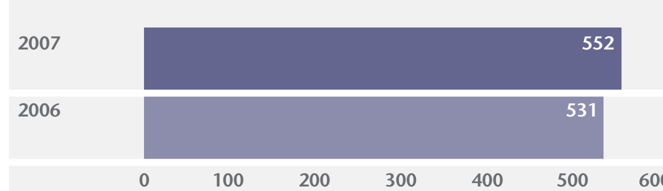
HIGHLIGHTS 2007

- We increased profitability despite higher raw material costs
- We made good progress with the Operational Agenda – streamlining our business and rolling in a new SAP IT platform
- We delisted from the NYSE to reduce complexity and costs
- We introduced a new strategy for turning around the paper business, which is already showing results
- We refocused our operations in South America
- We broke ground on a new plant in Nanjing, China
- We entered the decorative cosmetic market
- We launched a new range of conductive inks for radio frequency identification (RFID) antennas for the printable electronics market

GROUP SALES in billions CHF

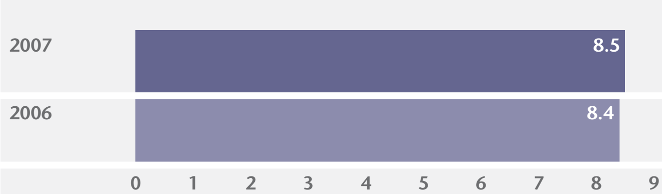


OPERATING INCOME[1] in millions CHF



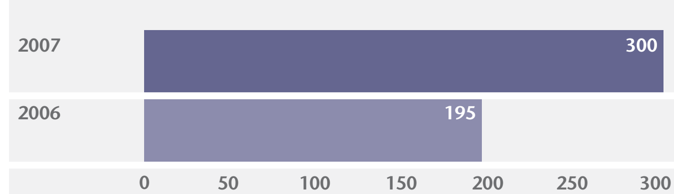
[1] before restructuring, impairment and other charges

OPERATING INCOME MARGIN[1] as a percentage of sales



[1] before restructuring, impairment and other charges

FREE CASH FLOW[2] in millions CHF



[2] before restructuring payments

FINANCIAL HIGHLIGHTS

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

STATEMENTS OF INCOME

	Excluding restructuring [a] & one-time tax item [b]		Including restructuring & one-time tax item	
Year ended December 31,	2007	2006	2007	2006
Net sales	**6 523**	6 352	**6 523**	6 352
Gross profit	**1 874**	1 849	**1 874**	1 849
Restructuring, impairment and other charges [a]			**(118)**	(69)
Operating income (EBIT)	**552**	531	**434**	462
Financial income (expense), net	**(125)**	(161)	**(125)**	(161)
Income from continuing operations before income taxes and minority interest	**427**	370	**309**	301
Provision for income taxes	**(111)**	(61)	**(84)**	(39)
Minority interest	**(5)**	(3)	**(5)**	(3)
Income from continuing operations	**311**	306	**220**	259
Earnings per share from continuing operations [c]	**4.62**	4.62	**3.27**	3.91
Income (loss) from discontinued operations, net of tax [d]			**17**	(300)
Income (loss) per share from discontinued operations [c]			**0.26**	(4.54)
Net income (loss)			**237**	(41)
Net income (loss) per share [c]			**3.53**	(0.63)

Balance sheets

December 31,	2007	2006
Current assets	**3 340**	3 554
Property, plant and equipment, net	**2 426**	2 576
Other long-term assets	**3 022**	2 951
Total assets	**8 788**	9 081
Current liabilities	**1 972**	1 566
Long-term liabilities	**3 431**	4 226
Minority interests	**80**	75
Shareholders' equity	**3 305**	3 214
Total liabilities and shareholders' equity	**8 788**	9 081
Net debt	**1 913**	1 854

Statements of cash flows

Year ended December 31,	2007	2006
Net cash provided by operating activities	**494**	422
Net cash used in investing activities	**(304)**	(159)
Net cash used in financing activities	**(563)**	(491)
Effect of exchange rate changes on cash and cash equivalents	**11**	4
Net decrease in cash and cash equivalents	**(362)**	(224)
Free cash flow	**300**	195
Free cash flow including restructuring payments, net [e]	**226**	127

FINANCIAL SUMMARY 2007

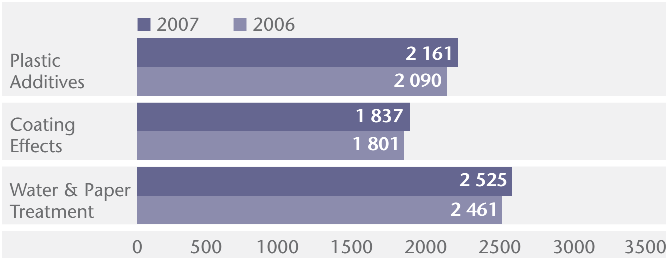
SALES (in millions CHF)

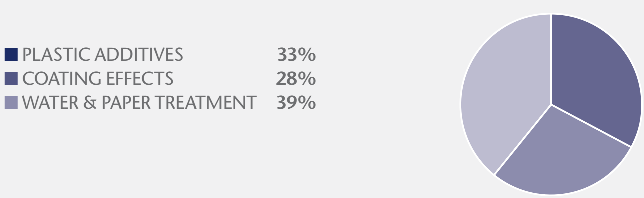
	2007	2006	percentage change in CHF	percentage change in local currencies [(f)]
PA	**2 161**	2 090	+3	+3
CE	**1 837**	1 801	+2	+2
WPT	**2 525**	2 461	+3	+1
Total	**6 523**	6 352	+3	+2

PA – Plastic Additives

CE – Coating Effects

WPT – Water & Paper Treatment

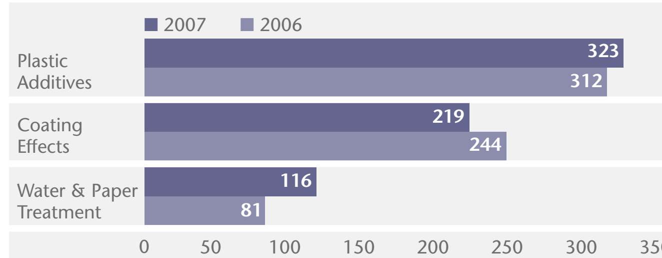


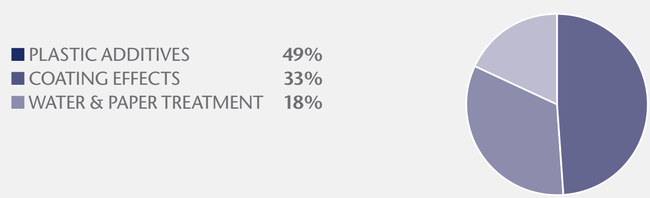


OPERATING INCOME[1] (in millions CHF)

	2007	2006	percentage change in CHF
PA	**323**	312	+3
CE	**219**	244	-10
WPT	**116**	81	+43
Corporate	**(106)**	(106)	
Total	**552**	531	+4

[1] before restructuring, impairment and other charges





FINANCIAL CALENDAR

Ciba reporting dates:	
Annual General Meeting	March 7, 2008
Expected dividend payment date	March 12, 2008
First quarter 2008 financial results	April 29, 2008
Half year 2008 financial results	August 21, 2008
Third quarter 2008 financial results	November 5, 2008

SHARE PRICE DEVELOPMENT INDEX 2001-2007

(a) Restructuring refers to restructuring, impairment and other charges incurred in connection with the Operational Agenda (described in the Company's 2007 annual report) and Project Shape (described in the Company's 2006 annual report). The charges that are not allocated to the segments because they apply principally to the Company as a whole are included in Corporate. For the year ended December 31, 2007, restructuring, impairment and other charges net of taxes of CHF 36 million would be CHF 82 million and for 2006 the amount net of taxes of CHF 22 million would be CHF 47 million.

(b) During 2007, certain tax jurisdictions in which the Company operates enacted legislation to decrease tax rates effective in 2008. The revaluation of deferred tax assets and liabilities using these new tax rates resulted in a CHF 9 million net increase in income tax expense for full-year 2007, mostly in Germany partially offset by tax expense decreases, mostly in Italy. As a result, the Company's full-year 2007 effective income tax rate increased by 3 percent to 27 percent.

(c) Earnings per share, basic and diluted.

(d) Income from discontinued operations, net of tax, in 2007 results from the release of certain tax reserves that had existed in connection with the Company's divestment of the Performance Polymers business in 2000 following the settlement of tax audits in 2007. This was partially offset by costs incurred by the Company attributable to the Textile Effects and Masterbatch businesses that were disposed of in June 2006 and November 2006, respectively. Loss from discontinued operations, net of tax, in 2006 consists of the results of operations, net of tax, of the Textile Effects and Masterbatch businesses as well as CHF 2 million of costs attributable to the Performance Polymers business that was divested in 2000.

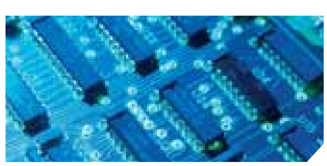
(e) Net of proceeds from restructuring-related asset sales in 2007 and 2006.

(f) Change in percent in local currencies (LC) reflects the percent change in (i) 2007 results, as adjusted to remove the effects of fluctuations in foreign currency rates as compared to 2006 and (ii) 2006 results, as reported.

CIBA

Ciba 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 a number of major markets, including Paper, Plastics, Packaging, Lubricants, Automotive, Construction, Electronics, Water Treatment, Agriculture and Home & Personal Care industries.



CONTENTS

WHAT WE DO

Ciba is a specialty chemicals company. We create products to improve the quality, the functionality and the appearance of plastics, coatings and paper. We help to shield people and objects from UV light and create color for a vast array of materials. We also support industries around the world to recycle, clean and save water, as well as add new qualities to materials and enable progress in miniaturizing electronic components. Innovation drives our business and is at the forefront of our strategic thinking.

WHO WE WORK FOR

Ciba offers integrated solutions for many of the world's largest industries. We follow a tailored approach to individual customer needs – whether it's UV absorbers for sunscreen cream, high-performance pigments for architectural paints or process chemicals for paper. We bring together the capabilities of the whole Company to address the needs of our customers, creating a strategic partnership that effectively links our core competencies with the consumer market – our customers' customers.

WHERE WE WORK

Ciba is a global company with a balanced geographical portfolio. We have a significant presence in Europe and NAFTA, with longstanding customer partnerships in a number of industries. We are also strong in Asia, where we are continuing to see substantial growth and are further strengthening our position with major investments in China and Singapore. We are also expanding our market positions in South America and Eastern Europe, as well as extending our operational capabilities in the Middle East.

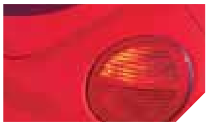
CIBA AT A GLANCE

PLASTIC ADDITIVES

Our additives protect polymers and lubricants against aging, corrosion and wear, as well as increase the durability and performance of plastic goods and engine oils. Our ingredients also enhance the look and feel of home and personal care products and provide skin and oral hygiene.

COATING EFFECTS

We are a leading manufacturer of pigments, photoinitiators and lightstabilizers, serving the automotive, packaging, electronics, and construction, as well as the photographic and printing industries. We use UV light for example, to dry and harden coatings, printed layers and electronic components in seconds.

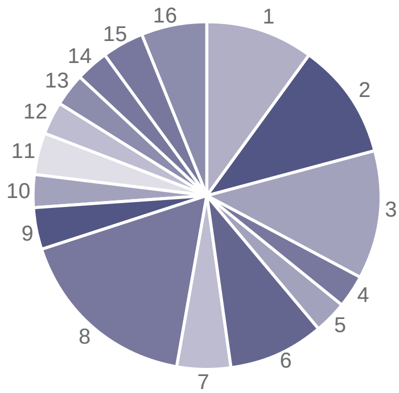


WATER & PAPER TREATMENT

Our solutions increase paper mill productivity and help treat industrial and municipal water. Our chemicals improve the separation of solid/liquid mixtures resulting in process improvements and enhance the look and quality of paper. We also produce whiteners and antimicrobials for detergent and hygiene products.

KEY INDUSTRIES

1	Automotive	10%
2	Paper Process	11%
3	Construction	12%
4	Extraction	3%
5	Fibers	3%
6	Paper Coating	9%
7	Imaging & Publication	5%
8	Packaging	17%
9	Electronics	4%
10	Home & Fabric Care	3%
11	Durable Goods	4%
12	Agricultural	3%
13	Personal Care	3%
14	Oils & Lubricants	3%
15	Pollution Control	4%
16	Others	6%



BIG PICTURE

Over **13 000 people** committed to serving **customers** in **120 countries** with leading edge **innovation** developed in **6 major R&D centers** and made in **61 production sites**.

GLOBAL PRESENCE

DEAR SHAREHOLDERS,

Ciba increased sales and improved profitability under very challenging business conditions in 2007. Our priorities for the year ahead are to focus on further efficiency improvement, decisive margin management and a new innovation approach.

2007 was undoubtedly a demanding year for Ciba – with raw material costs reaching unprecedented highs and unfavorable business conditions in some customer industries. But we also made substantial progress in a number of areas, building on our strong and focused business portfolio and delivering significant savings from the Operational Agenda, our program to improve efficiency and foster profitable growth. We increased our profits and made good progress with turning around our paper business, as well as launched some exciting innovative products and set up a number of new research collaborations.

STRATEGIC ACTION SHOWING RESULTS

The strategic actions we took to focus the portfolio, including the sale of the Textile Effects and Masterbatch businesses, are delivering results and have put us in a strong position for the future. Our core businesses, Plastic Additives, Coating Effects and Water & Paper Treatment are performing well, and the efficiency improvements we have made will continue to increase profitability.

LETTER TO SHAREHOLDERS

Armin Meyer

Brendan Cummins

FOCUS ON EFFICIENCY IMPROVEMENT

The Operational Agenda program launched in 2006 reached the half way point, with excellent progress being made across all initiatives. Our new SAP system is already up and running in around 80 percent of the Company, with the rest of the world following in 2008. A number of legal entities and production sites were closed to streamline our geographical footprint. As part of our Lean Manufacturing initiative we have already reduced production costs significantly and further actions are being implemented. In Marketing and Sales we introduced a new pricing model, ensuring more consistency and a stronger focus on profitability. Restructuring costs of CHF 118 million were incurred in 2007.

GOOD SALES AND INCREASED PROFITS

Overall we increased sales by 3 percent in Swiss francs and 2 percent in local currencies. This growth was mainly driven by Asia, with double digit rates in China. Europe and the Americas showed a mixed picture and overall were on a par with 2006.

The Operational Agenda already delivered substantial savings of more than CHF 95 million in 2007, higher than the originally anticipated CHF 60-70 million. This was an essential contribution to improve our profitability despite higher raw material costs. We are well on track with the program, with improvements in cost structure of CHF 400-500 million expected by 2009. Before restructuring, we increased our operating income by 4 percent over 2006 and improved our operating income margin to 8.5 percent of sales. Profitability in Plastic Additives remained high, and actions taken in Water & Paper Treatment improved profitability quarter by quarter. Coating Effects withstood much of the impact of the slowdown in some of its customer industries, as well as exceptionally high raw material costs and temporary production shutdowns. Net income for the Group increased to CHF 237 million in 2007.

LEVERAGING INNOVATION POTENTIAL

Innovation is the key engine for future profitable growth and an important pillar of our Operational Agenda. Ciba invests CHF 260 to 270 million per year in Research & Development. Based on a comprehensive analysis of our technological capability, in 2007 we have developed a new focused approach to innovation. For the future, we will strengthen our R&D efforts with a clearer focus on areas where we can significantly leverage our technological core competencies and see the highest growth and profit potential.

In 2008, we will consolidate our existing resources and introduce six cross-company research centers to focus on Ciba's core technologies: Protection and Stabilization, Color, Solid/Liquid Separation, Paper Strength and Coating, Interphase and Rheology and Polymerization and Curing Agents. These units will be complemented by competence centers for process innovation, industry-focused application, as well as regional technical centers. In addition, a New Growth Platform will be established to drive growth beyond Ciba's current core technologies and pursue high-potential emerging technologies.

FIGHTING CLIMATE CHANGE

Ciba has been taking action to fight climate change for many years. This year, we reduced our energy consumption by 6 percent relative to production. We have also set some stiff targets to be achieved by 2010: increase our sources of renewable energy and reduce levels of unused waste, each by 10 percent, as well as reach zero lost-time accidents.

OUTLOOK

The key priorities for 2008 are margin management and ensuring we achieve optimal value for our products. We will maintain our cost reduction efforts and continue a differentiated approach on prices and volumes, with selective price increases, but also volume growth strategies to gain market share where appropriate. We will withdraw unprofitable product ranges in order to improve margins. In addition, we will strengthen our sourcing capability, consolidate procurement activities company-wide and continue to optimize our working capital.

We are expecting 2008 to be another demanding year for the specialty chemicals sector, as the outlook for the economy is uncertain and raw material costs are expected to remain high. However, assuming no significant deterioration in business conditions, going forward we believe we will achieve sustainable annual sales growth in local currencies in line with global gross domestic product (GDP), as well as an increase in operating income of around 10 percent per year. For 2008, we expect an increase in free cash flow of around 20 percent and further significant improvements thereafter.

DIVIDEND OF CHF 2.50 PROPOSED

The Board of Directors has decided to propose a slightly reduced dividend of CHF 2.50 per share at the AGM on March 7, 2008, still providing an attractive yield for shareholders.

On behalf of the Board of Directors and the Executive Committee, we would like to thank our employees, customers and shareholders for their continued loyalty and support.

Armin Meyer
Chairman of the Board

Brendan Cummins
Chief Executive Officer

We will focus our capital and innovation investments on the industries, technologies and geographies that offer attractive returns and build upon our core business strengths.

BUSINESS FOCUS

1 Staying ahead in a changing industry	2 Investing in our strengths	3 Profitable growth through innovation	4 Securing value	5 Operational efficiency
We will not try to be all things to all markets, but we will extend our presence in areas with attractive growth potential.	We focus on investing in our core Plastics and Coatings businesses to extend our leadership in attractive markets.	We concentrate on areas where we can apply technological leverage in untapped markets.	Every Ciba business is expected to earn its cost of capital and generate value for shareholders.	As products and markets mature, we continue to extract value through cost leadership and operational excellence.

Investing in our strengths and delivering value

STAYING AHEAD IN A CHANGING INDUSTRY

The specialty chemicals industry is in a period of rapid transformation. Exceptionally high raw material and energy costs in areas of the business, combined with continued pressure on sales prices, underline the necessity for each business and product to add value, for customers and shareholders alike. The geographic center of the industry is shifting, with major new opportunities appearing in Asia and the Middle East. The pace of technological change also remains rapid: market leadership depends on ever-faster transfer of today's discoveries into tomorrow's saleable products.

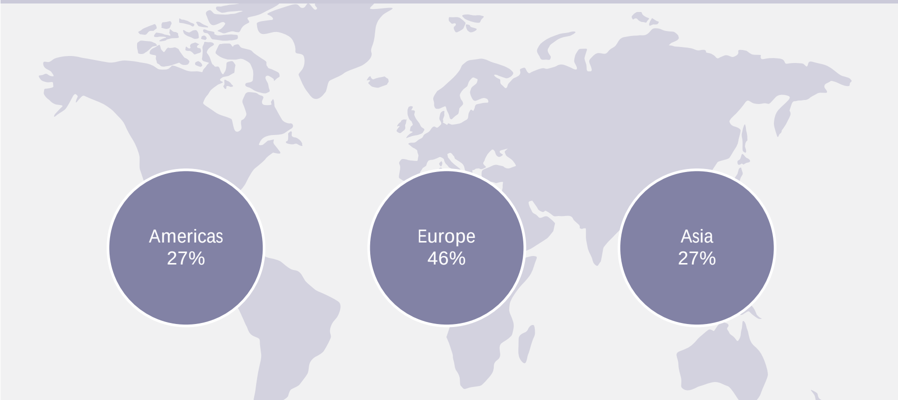
As we focus on the potential in these market realities, we are building on our strengths and seeking out targeted growth opportunities. The industry is further consolidating and we want to be a pro-active player in this process. We do not intend to be all things to all markets, but will extend our presence decisively in areas where our unique strengths offer attractive growth potential.

INVESTING IN OUR STRENGTHS

Our business emphasis is on focused investment in our core Plastics and Coatings businesses to extend our leadership in attractive markets, while building up our niche businesses (such as Electronic Materials, Personal Care, Expert Services and Process and Lubricant Additives) into larger growth platforms. We achieve this both by supporting organic growth and by adding complementary technology through small or mid-sized "bolt-on" acquisitions and ventures. We are selective: we recognize that not all our businesses

OUR BUSINESS FOCUS

A BALANCED GEOGRAPHICAL PRESENCE



have the capacity to grow more than the market – but particular lines within them, where we have the innovative technology, application expertise and direct routes to the customer offer very attractive returns. In our Water and Paper Treatment segment for example, profitability, rather than growth is the business priority.

Geographically, Asia is an important investment area for Ciba. We already gain almost a third of our sales from the region and are continuing to strengthen our commitment there, consolidating production and building new facilities. We intend to grow in China at double the rate of the local chemical industry and have recently broken ground on a major production facility in Nanjing, which will come on stream later in the year. Our state-of-the-art, automated plant for plastic antioxidants in Singapore will begin production in the first quarter of 2008. This investment consolidates our presence in this important market segment and positions us in the center of two major growth regions in Asia and the Middle East.

PROFITABLE GROWTH THROUGH INNOVATION

Innovation excellence remains the engine of Ciba's market leadership, with an annual investment in research and development of more than 4 percent of sales. We focus on areas where we can apply significant technological leverage to establish broad future technology platforms in untapped markets. We optimize our research efforts through consistent, clear criteria to ensure we retain a full pipeline of promising new chemistries. We are in the process of consolidating our existing resources into six cross-segment innovation centers that will focus on Ciba's core technologies. In addition, a new growth platform will be established to drive growth beyond Ciba's current core technologies by pursuing high-potential emerging technologies and extending our cooperation with external research partners.

SECURING VALUE

Every Ciba business is expected to earn its cost of capital and generate value for our shareholders. Where this is not the case, we are taking action to turn around performance – as in our paper business, where profitability has improved in 2007 through rigorous cost control, some closure of production and a new business model. If we do not see the possibility of a business meeting our financial expectations within an acceptable timeframe, we will not hesitate to consider an exit.

We will focus our capital and innovation investments on the industries, technologies and geographies that offer attractive returns and build upon our core business strengths. Going forward, we aim to grow sustainable annual sales in line with GDP, and increase operating income by around 10 percent per year. We also expect to increase free cash flow by around 20 percent in 2008, and to continue thereafter to deliver further significant improvements.

OPERATIONAL EFFICIENCY

As products and markets mature, we continue to extract value through cost leadership and operational excellence. The company-wide Operational Agenda program is not only driving profitable growth through marketing and innovation initiatives, but streamlining our business processes, increasing cost-effectiveness and improving transparency. As part of this initiative, we are well on the way to completing the transfer of all our business processes to a global SAP information platform: the Americas and most of Europe are operating with the new systems and Asia will follow in 2008. The Operational Agenda delivers not only cost savings, but an improved structure for working capital, allowing significant resources to be released for productive uses: improving market competitiveness and maximizing profit from maturing technologies.

HEALTHY PROSPECTS

Building on our strengths

Focusing on our core business and capitalizing on our market leading positions in key industries

Ciba's broad-spectrum UV absorbers for sun creams provide highly effective protection against both UV-A and UV-B rays. Skin aging remains one of the main concerns of many people using skin care products. For optimal skin care, we have developed the "Better Aging" concept that includes UV filters, moisturizers and encapsulated actives. These complementary products target distinct layers of the skin, offering better protection, maintenance and repair.

STRENGTH FOR THE LONG TERM

The pace of change continues to accelerate: in world markets, in technology and in our industry. Change creates challenges for Ciba – but challenges that we are well equipped to meet with a clear strategy, a broad portfolio of competencies and a balanced global presence.

GROWTH IN CHINA

We have been trading in China since 1886 and this market continues to hold great potential for us. It is the third largest chemical market in the world and has an economy that is expected to grow by 8 percent annually. The Chinese chemical industry itself – also the third largest in the world – is expected to grow by 12 percent annually.

Quality demands and environmental standards are rising in China, driven by showcase events like the 2008 Beijing Olympics and 2010 Shanghai World Expo. The rapidly expanding automotive and consumer goods industries offer opportunities for our coatings and plastics products and expertise, while the water treatment and paper industries are showing exponential growth.

Significant investment supports our drive for growth in China. In 2007, we broke ground on a high-performance pigment plant in Nanjing, which will become operational in 2008.

SOLUTIONS FOR THE MINING INDUSTRY

Among the challenges facing the world is balancing an expanding appetite for mineral resources with good environmental

STRENGTH

practice. Ciba offers solutions to some of the most pressing problems in the extractive industries, from oil to iron, diamonds to aggregates. Our rheology and flocculant chemicals control and accelerate the separation of solids from liquids, helping mine operators improve yields and reduce down-time while recovering scarce water resources and disposing of waste in an environmentally stable form.

In 2007, we established a joint venture with Senmin International to build and operate a 20 000 tonne per year mining flocculants plant in South Africa. This is an exciting development for Ciba in the mining industry, complementing our established bases in Europe, the Americas and Asia.

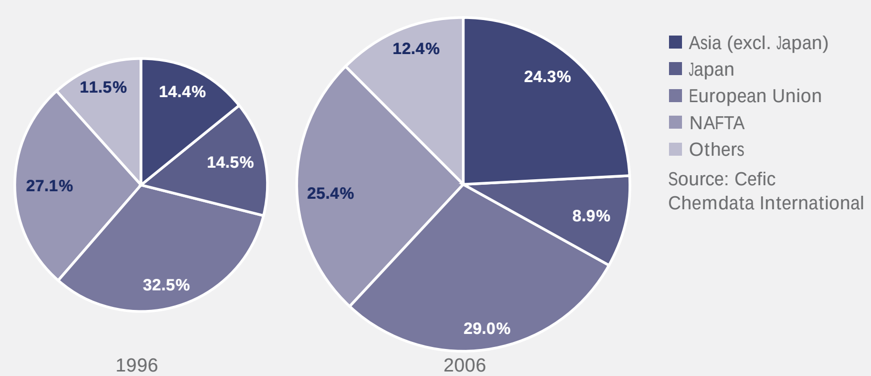
CORE COMPETENCE IN UV LIGHT

Rising levels of ultraviolet light reaching the earth's surface not only damage skin, but also materials like coatings and plastics. Ciba's long-established capability in UV protection takes this head-on with a portfolio of customized products for global industries.

Ciba is unique in being able to offer the suncare industry two separate technologies for balanced UV protection: microfine organic particles and molecular absorbers, both of which cover the full spectrum of burning, aging and cancer-causing wavelengths in formulations that meet the stringent requirements of dermatologists, governments and of the world's top skin-care companies. This capability has given us the leading position in the USD 500 million sunscreen UV filter market, which is projected to grow by 60 percent over the next decade.

To protect objects and building exteriors from sunlight, Ciba has developed a new encapsulated additives technology that overcomes one of the most fundamental chemical hurdles to providing reliable UV protection in environmentally friendly water-based coatings: the hydrophobic (water-shunning) nature of the most effective UV-absorbing molecules. Drawing on Ciba's abilities in dispersion technology and polymer science, the new technology encapsulates the UV absorber in tiny polymeric particles. The result is a product which is easy to handle and suitable for many kinds of water-based coatings.

INCREASING IMPORTANCE OF ASIAN CHEMICAL MARKET



Source: Cefic Chemdata International

NEW COLORS BUILD ON KEY STRENGTHS

Rich color effects are the trend in print, packaging, plastics, architectural coatings and cars. Ciba has made the fast-growing effect pigments market a strategic focus: among its success stories in 2007 have been the introduction of a deep chrome effect for coatings and packaging; bronze, silver and gold metallic pigments; inks visible only under UV light, for process control, anti-counterfeiting and decorative uses; frosty, glittering, glass-based “Nordic” shades for household and leisure products; and a new satin-black pearl finish, with applications from packaging to plastic moldings and furniture decoration.

Ciba builds on its strengths with research in Asia, new solutions for mining and a growing range of effect pigments.

WORKING SMARTER

Improving efficiency

Maximizing returns from improved profitability, with lean manufacturing and harmonized business processes

We also help our customers improve their efficiency. Our Color Services group, which creates color continuity for major brands, does just that. By designing a simple model to bring across-the-board accuracy to color on a vast array of materials – from plastic, like these chairs, to metal – it helps the customer achieve lower production costs, reduce delivery times and speed up production.

WORKING FOR THE FUTURE

Specialty chemicals is a demanding and competitive industry. The key to our future success is to use our resources as effectively as possible and make sure we support our customers' efficiency. Operational excellence is therefore a strategic imperative.

PATHS TO OPERATIONAL EXCELLENCE

2007 has been a key year for the Operational Agenda, Ciba's company-wide program to drive growth and streamline processes.

The program is well on track, and in 2007 we completed the transfer of our IT systems to a new global software platform in the Americas, as well as in most of Europe. The remainder of Europe and Asia Pacific will follow in 2008. The new SAP software provides seamless integration of all our processes, from purchasing and production through to marketing, sales and transport. The Lean Manufacturing initiative to optimize our production network and processes is in full swing. We have completed the diagnostic phase at all of our major facilities and are implementing transformation plans at 20 sites, improving equipment usage, streamlining materials flow, boosting yield, standardizing maintenance and cutting utility expenses – thus significantly reducing production costs.

MANAGING GLOBAL OPERATIONS

We are adapting our geographical presence to better match the requirements of our global business. In 2007, this resulted in the closure of production facilities in Camaçari, Brazil and in Toulouse, France. We have also consolidated legal entities and sales organizations in a number of regions to take

EFFICIENCY

better advantage of growth opportunities. In South America, in particular, we have made significant changes, centralizing regional operations in Brazil, establishing a transportation hub in Panama, restructuring our business in Argentina and strengthening our technical and sales offices in Colombia and Chile.

NEW PRICING TOOL FOR SALES TRANSPARENCY

Marketing & Sales is also a key element of the Operational Agenda. At a time of rapidly increasing raw material and utility costs, it is essential to have a clear global command over pricing and service levels. Our frontline pricing project builds on our analysis of product lines to deliver a global software pricing methodology. It allows sales teams across the Company to analyze each sale in comparison with others in the region, maintaining a tight focus on consistency and profitability. The pricing tool is integrated into a broader sales automation tool, which uses our new global software platform to coordinate sales, production, supply and distribution. This improves sales opportunities and service levels while simultaneously reducing inventory and costs.

PROGRESS ON THE OPERATIONAL AGENDA

	Status (0% – 100%)	Completed
MARKETING & SALES	55%	2009
INNOVATION	40%	2009
COMPANY-WIDE SYSTEM STRUCTURE	80%	2008
LEAN MANUFACTURING	55%	2008
GEOGRAPHICAL FOOTPRINT	70%	2008

SHARED BENEFITS WITH THE CUSTOMER

Ciba's customers share the challenges faced by all value-adding manufacturers: rapid technological change combined with high capital costs for new equipment. Even incremental improvements in efficiency can make a big difference.

The paper industry, particularly in Asia, increasingly depends on new, large capacity machines capable of running at very high speeds. These offer excellent productivity, but must achieve optimum running efficiency and minimal down-time to deliver on their investment. Ciba's paper chemicals help machines run cost-efficiently and keep customer margins healthy, saving USD 2-3 million per machine each year in operating costs.

Plastics manufacturers seeking to differentiate their products depend on Ciba additives offering benefits from light stability to fire retardance, antimicrobial action to striking visual effects. Manufacturers also want consistent, smooth-running, dust-free production lines – without having to pay for extra equipment. Ciba's proprietary range of customer-specific blends meets both needs with precisely measured, premixed combinations of effects delivered in stable, easily handled and dustless pellet or liquid form, supporting optimum product quality and adding to the customer's bottom line.

Ciba increases efficiency through lean manufacturing, chemicals for high-speed paper production and easy-to-process plastic additives in pellet form.

CLEAR VISION

Creating future opportunities

Expanding in new regions and investing in future technology and innovation

Architects are replacing glass with plastics for canopies, facades and windows. With good reasons: plastics are less likely to shatter, more easily shaped and simpler to attach. But outdoor conditions demand extra functionality from architectural plastics – the polyester sheets and films need to be protected against degradation by light, heat and air. Ciba additives make the clear view through plastic brighter and longer lasting.

LOOKING AHEAD

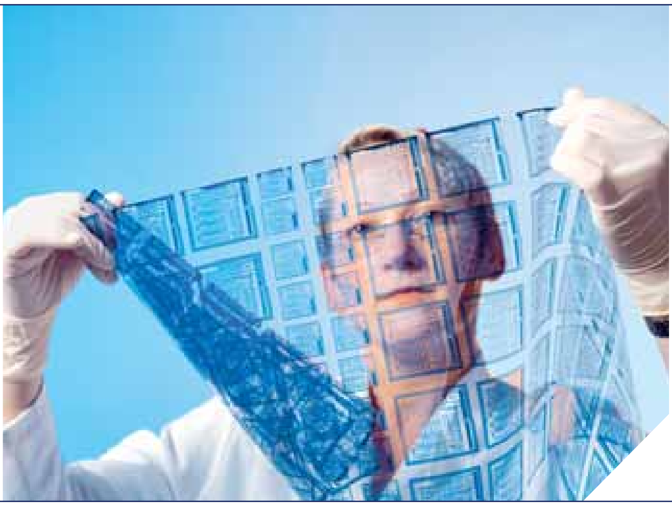
Future growth for Ciba means identifying growth trends early, seizing profitable niche opportunities and working very closely with customers. We invest more than 4 percent of sales in research and development, with the goal of extending our core competencies to enter promising new markets.

OPPORTUNITIES IN ELECTRONICS

Organic light-emitting diodes (OLEDs) will revolutionize products from computer and television screens to outdoor signage and lighting. Thin, bright and significantly more energy efficient than previous display technologies, OLEDs have great potential to reduce electricity consumption and thus CO_2 emissions. We are developing phosphorescent emitters, transport layers and host materials for OLEDs and have already begun contract manufacturing for major brands.

Great advances in miniaturization mean electronics appear in everything from supercomputers to car keys. The technology is poised to take a further step – onto the printing press. Ciba's conductive inks allow circuits to be put onto any surface they can be printed on, greatly improving process and design flexibility. The initial application is packaging: companies are investing heavily in RFID (radio frequency identification) for improved security and more efficient product tracking. Conductive inks, used to print the RFID antenna, can integrate the ID circuitry into the packaging itself, cutting production costs and opening the way for new applications.

FUTURE



A NEW LOOK FOR SECURITY

Governments and companies must constantly work to stay ahead of fraudsters and counterfeiters. Ciba solutions for security printing include luminescent pigments that glow under ultraviolet light. These inorganic materials uniquely combine ease of printing and resistance to light, heat and chemicals – ideal for banknotes, passports, credit cards and trustworthy branding.

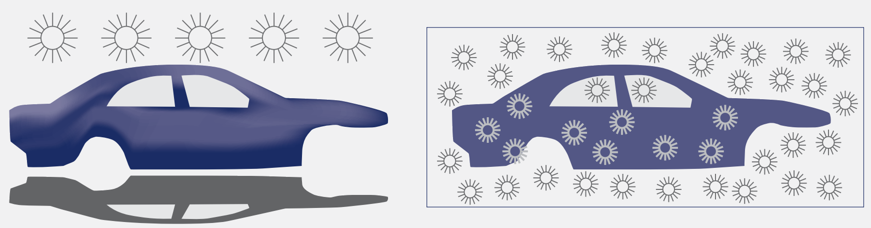
SOLVING A DILEMMA IN PACKAGING

Consumer packaging has two seemingly conflicting requirements: optimal visual appearance and up-to-the-minute information such as batch numbers, tracking data and "best before" dates. Previous methods for adding this information could leave them faint and blurry or involve using potentially contaminating pigments and solvents at the end of the packaging line. No longer: Ciba technology adds a transparent coating which can later be marked – permanently, sharply and legibly – using only a low-power CO_2 laser.

UV CURING SEEN IN A NEW LIGHT

Ciba has established a leading position in curing of coatings with UV light: a range of technologies that offers quick drying, energy saving, excellent scratch resistance and reduced use of environmentally harmful solvents. But where there is light, there must also be shadow – and with traditional light sources, curing the shadow areas has been a problem. Ciba has managed to solve this by filling a closed chamber with a luminous plasma, illuminating a complex shape like a car body from all sides at once, curing coatings evenly at every point in seconds – saving energy, time, and money.

3-DIMENSIONAL CURING OF COATINGS



Normal light sources leave shadow areas uncured

Light from plasma (excited gas ions) ensures complete curing

ADDITIVES FOR FUEL EFFICIENCY

Increasing fuel prices are driving consumer demand for improved fuel efficiency. Ciba process and lubricant additives perform a key role in delivering greater efficiency by enhancing engine oil performance and reducing surface friction. In 2007, Ciba launched a range of new products, derived from technology developed in our Water and Paper business, that prevent oils from solidifying at very cold temperatures and keep lubricants functioning at very high temperatures. Together they maintain efficient engine performance, even in extreme environments.

POTENTIAL IN THE MIDDLE EAST

Future opportunities are not just about products; the pace of world development has brought Ciba opportunities in new regions. The Middle East is one of the fastest-growing areas in the world, where a booming construction industry and emergent consumer market combine with the downstream development of the petrochemicals and plastics industries, making it an important market for Ciba's plastic additives. By 2010, the region will be the export hub for polyethylene and polypropylene, the world's largest-volume polymers; and we also see promising growth opportunities in coatings, water treatment and personal care.

Ciba develops solutions for the future: innovative inks for printed electronic circuits, products for package labeling with low-energy lasers and radiant UV pigments for security printing.

CLEAN FUTURE

Acting responsibly

Safeguarding the welfare of our employees, our environment and our community

By 2010, Ciba aims to draw 15 percent of its production energy from alternative sources such as wood, waste or wind. In a first for our industry, Ciba's largest manufacturing site in McIntosh, Alabama, is planning to use a gasification plant to provide 20 percent of its energy needs from timber waste gathered in local woods. By 2009, 35 percent of the energy used at the site will come from alternative sources.

INNOVATION FOR A BETTER FUTURE

Finding innovative answers to environmental challenges can also be a path to profitable growth. Active partnership with customers and suppliers maintains both good business relations and high sustainability standards.

PRODUCTS TO ALLEVIATE CLIMATE CHANGE

2007 saw good sales growth in Ciba products that help to mitigate the effects of climate change, including bleaching substances for low-temperature washing powders, additives that greatly extend the life of motor oils, stabilizers for low-weight plastics in the automobile industry, additives to reduce energy and water use in the paper industry and UV filters for more effective sun protection creams. We have also launched a range of additives for biodiesel, an alternative to petroleum diesel, derived from vegetable oils. These help maintain fuel quality throughout the supply chain, supporting the development of this major growth market.

REACH IMPLEMENTATION

The chemical industry now works within a new paradigm in the European Union: REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), which came into legal force on June 1, 2007. All chemicals produced in or imported into the EU must comply with the new regulation, requiring a major investment by the industry to test and document the human and environmental impact of each of its chemicals, from raw materials to end-customer applications.

ENVIRONMENT

Ciba is well prepared for this change, we have been involved in shaping the REACH regulation from the beginning, and we have leading capability in this area, both within our business segments and our Expert Services consulting business. We are very well placed to comply as we have a longstanding policy of rigorous safety and environmental testing for new products. We have set up a multi-disciplinary team to manage the implementation of REACH, not just across the Company, but working closely with our customers and suppliers. We have established inventories of all our substances for pre-registration, and established IT structures and processes. We are communicating our implementation plans to customers and have instigated training programs for our Company's stakeholders. We are working with other industry leaders for benchmarking and exchange of best practices.

REACH is not simply a cost, however; it also opens significant opportunities for Ciba. Assessing our portfolio for registration is also a chance to review and improve its cost structure. Consultation with our customers to support their applications for REACH registration brings us closer to the market, further enhances our application knowledge and allows us to provide sustainable and innovative solutions for our customers. In short, REACH is an integral part of the way we do business at Ciba.

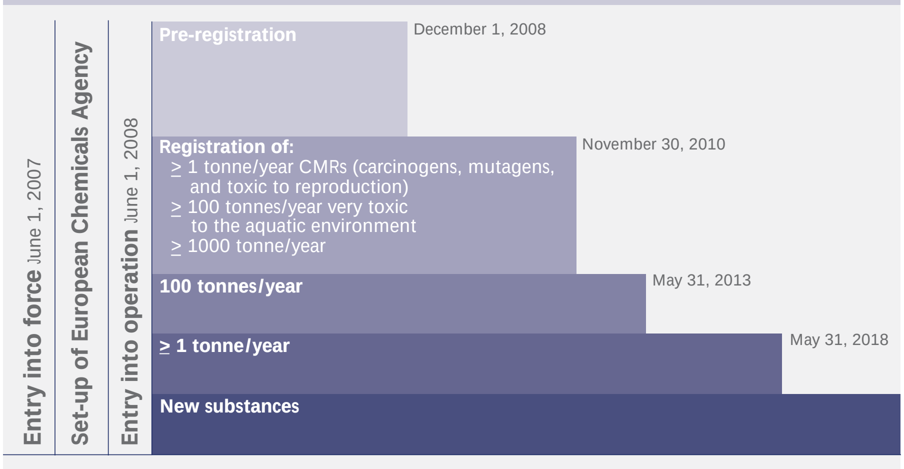
SUPPLIER ASSESSMENTS

Supplier assessments allow Ciba to evaluate and improve the reliability of supply and to minimize the risk of business interruption from supplier safety and environmental incidents. We also help our suppliers to improve their environmental, health and safety (EHS) performance by giving advice during these assessments, pointing out changes required to become a preferred supplier.

2007 starkly confirmed the value of Ciba's supplier assessment program when the Chinese government stepped up its rigorous enforcement of environmental regulations. Many chemicals manufacturers faced temporary shut downs pending improved practice, or even permanent closure.

Ciba has been performing supplier assessments since 2003. About half of the assessed companies are already running at acceptable or even high standards; about 40 percent show some deficiencies that classify them as restricted suppliers and about 10 percent fail. Our focus in 2007 remained on China, where we found that standards varied widely, from the excellent to the unacceptable: one assessed supplier was denied further business with us.

REACH TIMELINE



Ciba products contribute to environment and climate protection. Recent environmentally friendly products include stabilizers for biodiesel based on renewable feedstock.

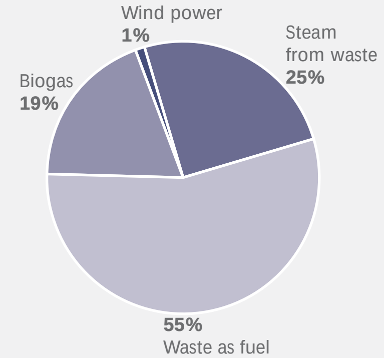
LESS ENERGY AND CO_2 PER TONNE

In 2007, Ciba's total production volume increased by 8 percent over the previous year, yet our energy use and CO_2 emission remained steady. Further innovations, identified as part of our drive to streamline processes, will improve this performance yet further.

PROGRESS IN ENERGY SAVING

In 2006, Ciba set a target of increasing our proportion of alternative energy from 5 percent to 15 percent by 2010. After one year, we have already identified how we will meet more than half of this increase, both from increased use of comparable (waste) fuels from external sources and from new sources of renewable energy such as timber gasification (see box on page 20). These projects will first

CIBA RENEWABLE ENERGY SOURCES



ECO EFFICIENCY

contribute to our environmental results in 2008. The Lean Manufacturing program has also identified many energy saving opportunities in production, wastewater treatment and utilities generation; we are now implementing these. Finally, we have found that other manufacturers and heating plants are willing to take away or buy some of our non-recoverable waste to use as comparable fuel. In 2007, we sent a total of 11 120 tonnes of waste to such installations, thus replacing some 7 million cubic meters of natural gas or 6 300 tonnes of heavy fuel oil and significantly reducing overall CO_2 emissions.

As for our own CO_2 emissions, we have completed the first phase of the EU emissions trading system with a healthy surplus of allocations, and we are on track to achieve the agreed CO_2 targets in our Swiss sites.

0-10-10 TARGETS

Ciba has established a new set of EHS targets to run from 2007 to 2010 – the aim is to achieve no lost time accidents; a 10 percent increase of proportion of renewable energies and a 10 percent reduction of unused waste by 2010.

In support of our goal of zero lost time accidents, in 2007 we launched a behavioral safety program, which will focus on mechanical and walking accidents, where most of our accidents originate.

We are not expecting instant progress on the renewable energy and reduction of unused waste targets, as the projects have longer lead times. However, in renewable energy, in 2008 we will see the first finished projects and their impact on our energy consumption.

In the area of unused waste, we saw a small improvement in 2007 in recycling of hazardous waste (+ 1.5 percent of total waste) and more use as comparable fuels (+0.3 percent).

2007 ECO PERFORMANCE

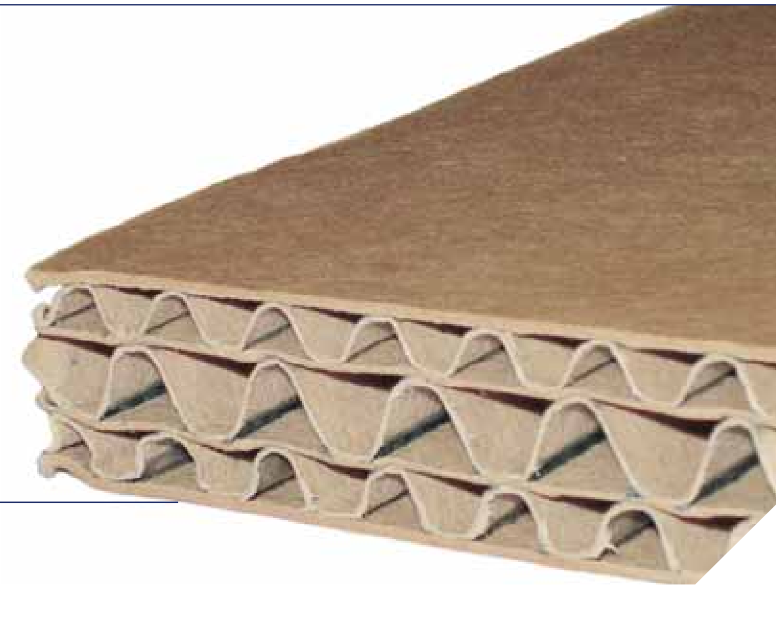
Energy use increased by 2 percent in absolute terms, but dropped by 6 percent when related to production on the adjusted base of 2006.

Water consumption increased by 7 percent in absolute terms, or dropped 1 percent when related to production.

Our global warming contribution was stable in absolute terms and decreased by 8 percent related to production. We are continuing to substitute fossil fuels by waste and renewable sources.

Ozone depletion – our contribution decreased in absolute terms by 30 percent and by 35 percent related to production. In 2007, we were successful in our programs to ensure that the cooling circuits in refrigeration plants and air conditioning units are leak-tight.

Waste generation fell by 2 percent in absolute terms. Related to production, this represents a drop of 9 percent.



Ciba increases its own eco-efficiency and that of its customers. Easy-to-recycle cardboard packaging, made from wax-free yet water-repellent corrugated carton are selling well.

FULLY INTEGRATED INTO BUSINESS PROCESSES

We strongly believe that EHS is an integral part of our business. We know that environmental concerns create opportunities, rather than threats, for our business and our customers' success.

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.

Values according to a new definition of production volume and water consumption; 2006 recalculated.

2007 ECO PERFORMANCE

Comments to graphs

This data was collected using our global SEEP (Safety, Energy and Environmental Protection) reporting system; it covers the period October 1, 2006, to September 30, 2007.

51 of our production sites and joint ventures where we have management control reported. The data from these joint ventures was consolidated to 100 percent, regardless of our actual holding. Since 2003 we are consolidating the figures in accordance to the UNCTAD Guidelines on Eco-Efficiency Indicators.

In 2007 a few changes to the reporting took place. In the past we excluded smaller sites from reporting their water requirements and also production volumes, but they did report energy requirements; now they are included and the baseline for 2006 was adjusted accordingly.

Production volumes were reported up to 2006 as 100 percent active substance. Due to a change in accounting software, we are now reporting the volumes leaving the manufacturing plant "as is". Again the baseline for 2006 was adjusted.

Three out of our five parameters – energy use, water use, global warming contribution, contribution to ozone depletion and waste – decreased over the past twelve months in absolute terms.

Net value added, not including currency exchange variations, increased slightly by 0.2 percent in 2007.

Energy use

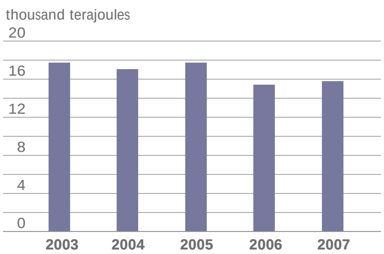
Total primary energy purchased by sites and by third parties to provide the Company with steam and electricity. Internal waste used as fuel is not included.

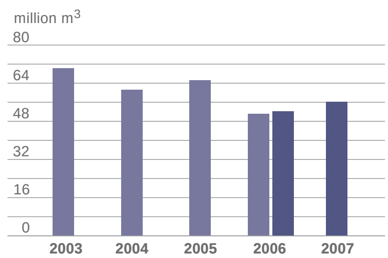
Water consumption

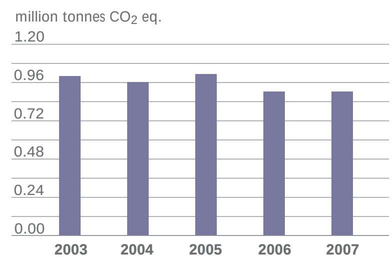
Total water entering sites, except rain and storm water.

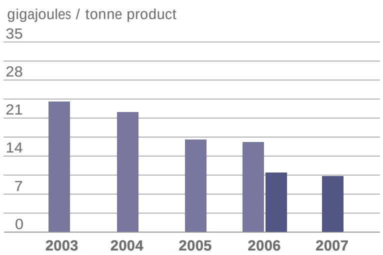
Global warming contribution

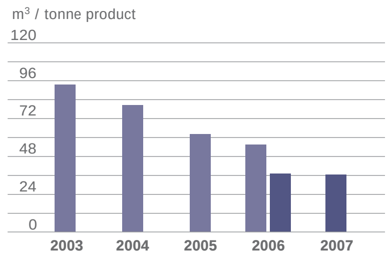
Global warming gases emitted by or on behalf of the Company, expressed as carbon dioxide (CO_2) equivalents (and calculated in accordance with the Kyoto Protocol).

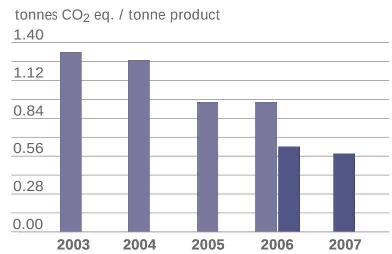


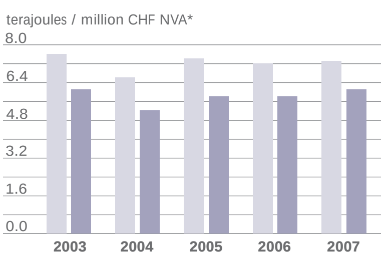


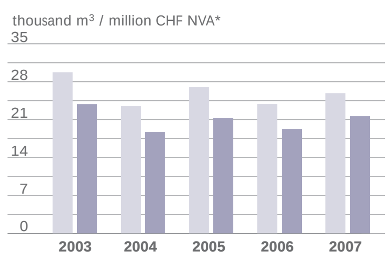


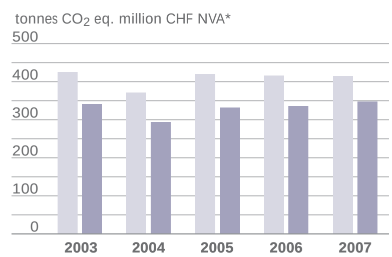












ACTING RESPONSIBLY

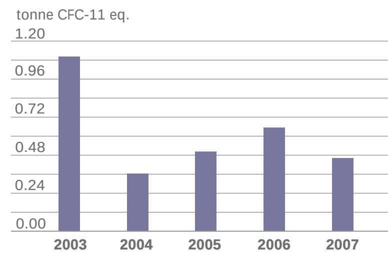
Ciba keeps track of all important eco-parameters, including water and energy, greenhouse effect, ozone depletion and waste, and measures them against ambitious targets.

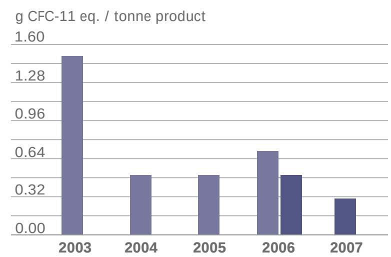
SAFE AND CLEAN EQUALS EFFICIENT

Ciba lives up to its responsibilities: to its employees by promoting safe working practices; to its neighbors, with lower emissions; to its shareholders, by operating efficiently, reducing waste and energy use. Good environmental performance contributes to good performance overall.

Contribution to ozone depletion

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



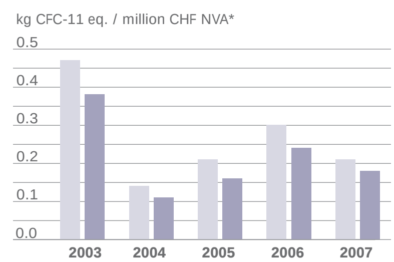


VALIDATION STATEMENT

The Eco Efficiency data was validated by Ellipson AG.

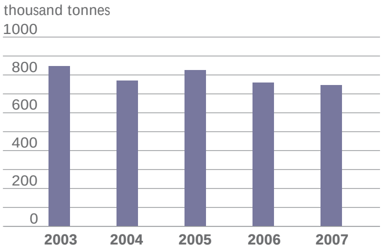
ELLIPSON

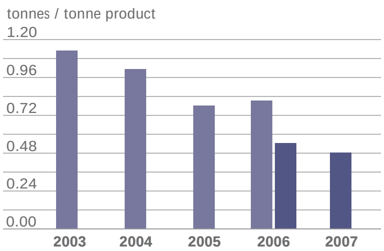
The full statement can be found under www.ciba.com/ehs

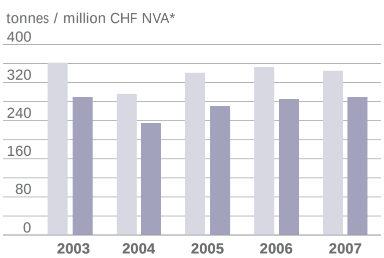


Waste

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







LOST TIME-ACCIDENTS 2007

The frequency of lost time accidents (LTAs) at Ciba has been dropping for many years and, thanks to continuous efforts, the nature of the accidents has also changed: chemical and thermal accidents now represent less than one quarter of all LTAs. Our focus for 2007 was on mechanical and walking-related LTAs – trips and falls. Using information and training materials from Group EHS, we made a special effort to reduce this type of accident.

This produced a significant further reduction in them: from 33 in 2006 to 18 in 2007, with a drop in the overall number of LTAs from 44 to 25 – the best figure Ciba has achieved so far. Mechanical and walking accidents still represent a high percentage of our LTAs, however, so we will retain our focus on this area.

Lost time-accidents frequency

Lost time-accidents severity

THE FOLLOWING SITES REPORTED ZERO LOST-TIME ACCIDENTS:

Out of the 54 facilities (2006: 55) completing the SEEP year, October 1, 2006, to September 30, 2007, 41(2006: 34) sites reported zero lost time and a further 7 (2006: 8) had only 1 lost time accident to report.

Kwinana	Australia
Thomastown	Australia
Wyong	Australia
Pischelsdorf	Austria
Paulinia	Brazil
Smith Falls	Canada
St. Nicholas	Canada
Guangzhou	China
Jiangsu	China
Qingdao	China
Shanghai	China
Kaipiainen	Finland
Kokemaki	Finland
Mietoinen	Finland
Ribecourt	France
Sens	France
Grenzach	Germany
Lampertheim	Germany
Grimsby	Great Britain
Ankleshwar	India
Goa	India
Merak	Indonesia
Pontecchio Marconi	Italy
Aioi	Japan
Chiba	Japan
Kitaibaraki / Isohara	Japan
Osaka	Japan
Cheonan	Korea
Doobon	Korea
Ulsan	Korea
Puebla	Mexico
Herenveen	Netherlands
Maastricht	Netherlands
Guturribay	Spain
Tolosa	Spain
Berwick	USA
McIntosh	USA
Newport	USA
Suffolk	USA
Tarrytown	USA
West Memphis	USA

Ciba puts a special emphasis on safety worldwide – globally and locally, on all sites, in all local languages.

PUTTING PEOPLE AT THE CENTER

Innovation, operational improvements, global integration – all are fundamentally people issues. Ciba is making changes to create a culture that ensures we better meet market needs while remaining a desirable place to build a career.

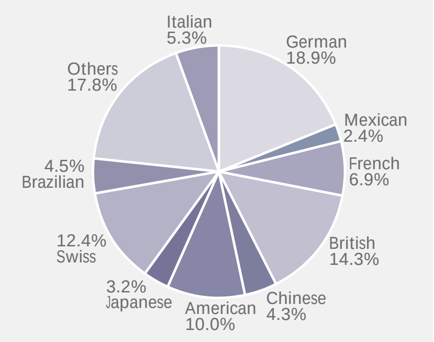
A CULTURE THAT VALUES PERFORMANCE

A vital support to the Operational Agenda is the Performance Culture and Leadership program. It aims to make clear to every employee how performance and reward are connected. Ciba people have shown high levels of commitment through demanding times. The objective of the program is not to ask employees to do more, but to ensure everybody fully understands the impact of their efforts to the success or failure of the team, the business and the Company.

Consistent performance depends on effective and accountable leadership. At every level in the hierarchy, the program provides for assessment against clear and quantifiable performance targets. Ciba's top 30 managers were the first to undergo personal assessment of their leadership capabilities and will also take the lead in promoting the new culture through the Company.

2008 will see the completion of the four key projects of the program: the first, 'Effective Leadership', will deliver leadership and employee charters that clearly define roles and expectations and create the format for feedback and improvement. 'Performance Management' has redesigned the global appraisal process and emphasized the importance of "how" results are achieved in addition to "what" has been achieved. 'Reward and Recognition' will provide further transparency about funding and payment, strengthening the connection between compensation and measurable performance, and we shall benchmark our practices against those of our competitors to ensure they fully support a performance orientation. The fourth project, 'Climate Assessment', will be launched in 2008 to establish regular surveys of employee opinion to gauge the effect of business developments and plan further actions.

MANAGEMENT DEVELOPMENT POPULATION BY NATIONALITIES



PEOPLE

Taken together, these initiatives lay the foundations for a business culture that combines the flexibility to manage change with the clarity and consistency to deserve the long-term commitment of our employees. Its aim is to clear away unnecessary bureaucracy and, by clearly linking performance, feedback and reward, empower talented individuals to build their careers with us.

SALES INCENTIVES

To generate additional sales and profit, Ciba's Marketing and Sales initiative is establishing new working practices, where leading-edge processes, methodologies and tools support self-motivated, market-aware sales experts. These new systems, methodologies and training programs are now largely in place.

To complement them, we have established a new incentive plan for our salespeople. Its purpose is to reward the achievement of individual targets, based on year-on-year sales growth appropriate to local conditions, as well as on the implementation of business strategies. Annual base salary is supplemented by a level of performance-related bonus that is uncapped but expected to represent about 25 percent of salary. This bonus includes components based on sales figures, profitability and the achievement of individual challenges agreed between manager and sales employee.

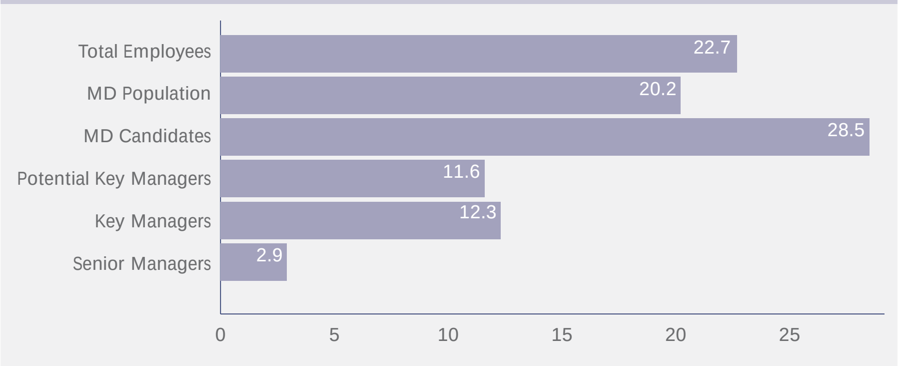
The new incentive plan was piloted in 2007 and will apply across the Company in 2008. It will motivate sales staff to achieve, not just higher sales numbers, but the best business result for Ciba. It will support a high-intensity sales culture, appropriate for a company that put performance at the center of its business.

CODE OF CONDUCT

Performance includes maintaining the highest standards of business ethics. Ciba's Code of Conduct, which applies across the world and which all employees must sign, requires them: to comply with the laws and regulations of the countries where we work; to protect the environment and the health and safety of fellow employees, customers, and society; to treat each other fairly, rejecting all discrimination or harassment; and to guard against unethical practices like bribery, price-fixing, insider trading, conflict of interest and attempts to gain control of the Company's property or trade secrets.

In 2007, the Company investigated a number of reported violations of the Code of Conduct and where necessary, applied the appropriate sanctions. Several employees were reprimanded and/or agreed specific behavior requirements. In a number of cases, including severe abuse of the internet, harassment and conflict of interest, employment was terminated.

GENDER DIVERSITY BY FEMALES IN PERCENT



At Ciba, employees take center stage, irrespective of function, gender or cultural background.

Contents

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

ARMIN MEYER
Chairman of the Board and CEO*
Swiss

BEAT HESS
Vice Chairman of the Board
Swiss

ERWIN W. HERI
Member of the Board
Swiss

UTZ-HELLMUTH FELCHT
Member of the Board
German

GERTRUD HÖHLER
Member of the Board
German

JEAN-MARIE PIERRE LEHN
Member of the Board
French

ULI SIGG
Member of the Board
Swiss

PETER LITTMANN
Member of the Board
German

THE BOARD OF DIRECTORS [DCG 3][1]

The Board of Directors is the most senior body of Ciba Specialty Chemicals Holding Inc. ("Board"). The Board defines the strategic direction and supervises the overall affairs of the Company. The Board also reviews the Company's key plans and objectives, identifies external risks and opportunities and initiates required activities.

The Board has the ultimate responsibility for the principles of financing, investment policy, human resources, environmental and social policy and appointments and dismissals at top management level. The Board particularly decides on changes in the business portfolio and investments of fundamental importance as well as the structure of accounting, financial controlling and financial planning.

The Board has committed itself to maintaining the highest standards of integrity and transparency in its governance of the Company. The charters of the Board and of the Board Committees reflect these principles, including the Swiss Code of Best Practice, in particular with regard to:

- separation of the mandates of Chairman and CEO from January 1, 2008
- broad supervisory and reviewing powers for the Board, directly supported by Internal Audit
- independence of Board Members of the Company with one exception being the Chairman, who was also CEO until December 31, 2007
- independence of Board Committee Members, with one exception being the Chairman serving on the Human Resources and Nomination Committee
- having Audit Committee Members who are all non-executives with significant expertise particularly in the area of finance
- having Compensation Committee Members who are all non-executives with broad practical experience in the area of employee and executive compensation
- an annual self-assessment of the Board
- elimination of retention agreements for change of control.

The Board recognizes the importance of being fully informed on material matters involving the Group and ensures that it has sufficient information to make appropriate decisions through several means as for example:

- 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 and information on all business events of fundamental significance not included in the regular reports [DCG 3.7]
- regular attendance of Executive Committee Members and top management in meetings of the Board and its Committees
- regular meetings of the Board and its Committees with external consultants in the area of finance, law and auditing. The auditors of the Company are present at those Board meetings during which the annual accounts of the Company are discussed and the related items and proposals to the AGM of the shareholders of the Company are decided upon. They are also present at one of the Company's Disclosure Committee meetings and at the meetings of the Audit Committee where audit mandate and audit planning are discussed. Any other participation is as required.

***** Chairman of the Board and CEO to December 31, 2007 - from January 1, 2008, Chairman of the Board
[1] Numbers in square brackets refer to the Directive on Information Relating to Corporate Governance ("DCG") of the SWX Swiss Exchange

ARMIN MEYER became Chairman of the Board of Ciba Specialty Chemicals Holding Inc. in autumn 2000. From January 1, 2001, until December 31, 2007, he in addition acted as Chief Executive Officer. He has been a Member of the Board of the Company since its spin-off in 1997. Previously, Armin Meyer was Head of the global Building Technologies Segment of ABB Ltd. As of 1995, he was a Member of the Executive Committee of ABB, a global technology Group. Armin Meyer started his career in 1976 when he joined the former Brown Boveri Ltd. (BBC) as development engineer. In 1980, he became Head of Research and Development for industrial motors and took over as Head of the international business unit for electrical power generators in 1984. Further steps included the presidency of ABB Drives Ltd. as well as of ABB Power Generation Ltd. In 1995, he became Head of the Power Generation Segment. In 1998, he took over as Head of the Building Technologies Segment. Armin Meyer, born 1949 in Zurich, Switzerland, holds a Ph.D. in electrical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich. In addition to his responsibilities at ABB, Armin Meyer was also Professor for Electrical Engineering and Drives at ETH, Zurich, for twelve years.

BEAT HESS has been Group Legal Director of Royal Dutch Shell since 2003 and member of its Group Executive Committee since October 1, 2007. In 1988, prior to joining Shell, Beat Hess became General Counsel of ABB, where he headed Legal and Compliance, and he advised the Group Executive Committee and the Board on all legal matters of group importance. From 1998 onward, he was also secretary to the Board of Directors. His career began as a legal adviser to a Swiss cantonal government and a law clerk in Swiss courts in 1972. Then, in 1977, he joined BBC Brown Boveri Ltd, a Swiss multi-national engineering group – later to merge with ASEA to become ABB - as Legal Counsel, with a particular focus on negotiation of large projects and transactions. Beat Hess has a Ph. D. in Law from the University of Fribourg, Switzerland, and a Juris Doctorship and Post-graduate Diploma in Advanced Legal Studies from the University of Geneva, Switzerland, as well as a Master of Laws from the University of Miami, USA. He was admitted to the bar in his home canton of Obwalden. Beat Hess was born in Lucerne, Switzerland, in 1949 and speaks four languages.

UTZ-HELLMUTH FELCHT has been working as an independent business consultant in 2006. In 2007, he joined One Equity Partners Europe as partner. Since 2007, he is a non-executive Member of the Board of CRH plc, Dublin, and since 1991 member of the Board of SGL Carbon AG, Wiesbaden. He is Honorary Professor at the Technical University in Munich, Germany, and at Jilin University in Changchung, China. From February 2001 until May 2006, Utz-Hellmuth Felcht was CEO of Degussa AG, a multinational corporation for specialty chemicals with headquarters in Germany. From October 2004 until May 2006, he also served as Vice President and Member of the Executive Committee of Cefic Brussels (European Chemical Industry Council) and as Chairman of Cefic's Research & Science Board. From 1998 until 2000, Utz-Hellmuth Felcht was CEO of SKW Trostberg AG in Germany, after he had held a number of international leadership positions at Hoechst AG from 1977 until 1998, where he became Member of the Board in 1992 and Director of Personnel in 1994. Utz-Hellmuth Felcht has broad experience in leading international companies. He has served as President or Member of the Board at many renowned corporations in the course of his career. Born in 1947 in Iserlohn, Westphalia, Germany, he studied at the University of Kaiserslautern, where he received his Ph.D. in Chemistry in 1976.

Since 2003, ERWIN W. HERI has been Chairman of the Board of Directors of Valartis Group AG (formerly OZ Bankers AG) in Baar and of Valartis Bank AG in Zurich, Switzerland. Prior to that, Erwin W. Heri served as Chief Financial Officer of Credit Suisse Financial Services. From 1995 until the takeover by the CS Group in April 2000, he was a member of the Executive Committee and Chief Investment Officer of Winterthur Insurance. Erwin W. Heri started his professional career in 1985 as a scientific consultant to Swiss Bank Corp.'s economic research department in Basel. In 1991 Erwin W. Heri was appointed director and became head of International Private Banking and Asset Management. Born 1954 in Biberist, he studied at the Institute of Social Science at the University of Basel where he received his Ph.D. in Economics in 1983. In 1989, following his habilitation, Erwin W. Heri was appointed professor and has been a lecturer at the Economic Department of Basel University since 1990. Erwin W. Heri is author of over 50 publications as well as seven books on economic and financial topics.

Since 1985, GERTRUD HÖHLER has had a distinguished career as a management consultant, working for Germany's largest companies, including Deutsche Bank, Volkswagen and Mercedes-Benz. Between 1972 and 1993, Gertrud Höhler worked as a literature professor at the University of Paderborn in Germany. During that period and until recently, Gertrud Höhler was also offered several jobs to serve as a minister for the Christian Democrats in regional governments in Germany and, in 1988, turned down an offer by Chancellor Helmut Kohl to become the Minister for Youth and Family. In 1987, Gertrud Höhler took a three-year leave from her university position to develop a communications strategy for Deutsche Bank and, in 1989, she worked as a communications specialist for car manufacturer Volkswagen. Gertrud Höhler resumed teaching in 1991 and stayed at the University of Paderborn until 1993. During this period she also worked as Non-Executive Director for Grand Metropolitan Plc. in the UK. Gertrud Höhler, born in 1941 in Wuppertal, Germany, holds a Ph.D. in philosophy from the University of Mannheim, Germany. Gertrud Höhler is the author of numerous books and publications on cultural and social issues that, among other things, call for open corporate cultures and communications policies.

JEAN-MARIE PIERRE LEHN is a noted researcher in the field of chemistry and Nobel Prize Laureate in Chemistry for research on molecular recognition processes along with two US researchers, Donald J. Cram and Charles J. Pedersen, in 1987. Jean-Marie Pierre Lehn is Professor at the Collège de France in Paris, where he holds the Chair of Chemistry of Molecular Interactions. Before joining the Collège de France in 1979, Jean-Marie Pierre Lehn was Professor of Chemistry of the University Louis Pasteur, and he still is Director of its Supramolecular Chemistry Laboratory in Strasbourg. Between 1966 and 1969, he served as Assistant Professor at the University of Strasbourg. Born in 1939 in Rosheim, France, Jean-Marie Pierre Lehn obtained his doctorate at the University of Strasbourg in France in 1963. During his post-doctoral studies at Harvard University, he worked on the total synthesis of vitamin B-12. Jean-Marie Pierre Lehn has been a visiting professor at Harvard University, the Federal Institute of Technology in Zurich, as well as the Universities of Barcelona, Cambridge, Frankfurt and Karlsruhe. He has received honorary degrees from a variety of institutions and is member of many academies. He is the author of two books, over 800 publications and 15 chapters within books.

PETER LITTMANN is Chairman and CEO of Brandinsider GmbH, a strategic brand-consulting firm in Hamburg. From 1997 until 1999, Peter Littmann was Chairman and CEO of Wünsche AG, a Hamburg-based company, which at that time was holding brands such as Joop! and Cinque. From 1993 to 1997, he was Chairman and CEO of Hugo Boss AG, a men's fashion design company based in Metzingen, Germany. From 1981, Peter Littmann spent 12 years with Vorwerk & Co. in Wuppertal, holding various positions including Member of the Executive Board, General Partner and President. From 1978 to 1981, Peter Littman was Executive Director at Rosenthal AG, Selb, Germany. Prior to that, Peter Littman served as President of the Carpet Division at Girmes Ltd., in Grefrath, Germany, for two years. Born in Prague in 1947, Peter Littmann studied engineering, graduating in 1967 from the University of Bratislava in the former Czechoslovakia. In 1968, he moved to Germany, where he studied business management at the University of Cologne, graduating in 1975 with a Doctorate. Peter Littmann is Professor of Marketing at the University of Witten/Herdecke, Germany, as well as author of numerous publications and books. The latest one on New Economy called "Oszillodox. Virtualisierung - die permanente Neuerfindung der Organisation" received the prize of "Bestes Deutsches Wirtschaftsbuch des Jahres 2000" by Ernst & Young Cap Gemini.

ULI SIGG's distinguished career includes not only his current position as Vice Chairman of the Board of Switzerland's leading media group, Ringier Group. Between 1995 and 1998, he served as Ambassador of Switzerland to the People's Republic of China, North Korea and Mongolia. From 1990 to 1995, Uli Sigg was an entrepreneur, serving as a Member of the Board of Directors of several international corporations, including Ringier and Schindler. Uli Sigg started his career in 1977 in the export division of the Schindler Group. He became Head of Chinese Activities in 1979. In 1980 he was appointed Vice President of China-Schindler Elevator Company in Beijing, the first joint venture of the People's Republic of China with a western company. His promotion to Asia-Pacific Area Manager followed in 1982. He became a Member of the Executive Committee in 1984 and in 1986 Delegate of the Board of Directors. Before joining Schindler, Uli Sigg was a business journalist at Ringier and "Finanz und Wirtschaft". Uli Sigg, born 1946 in Lucerne, Switzerland, studied law at the University of Zurich and graduated in 1976 with a Ph.D. degree.

SIGNIFICANT POSITIONS AND POLITICAL MANDATES OUTSIDE THE COMPANY [DCG 3.2.A/B/C]

NAME	POSITIONS
Armin Meyer Chairman and CEO	Member of the Board of Directors, Zurich Financial Services, Zurich Member of the Board, CEFIC (European Chemical Industry Council), Brussels Member of the Foundation Board IMD – International Institute for Management Development, Lausanne
Beat Hess Vice Chairman	Group Legal Director and (effective October 1, 2007) Member of the Group Executive Committee, Royal Dutch Shell plc, Den Haag
Utz-Hellmuth Felcht	Partner, One Equity Partners Europe GmbH, Frankfurt Honorary Professor of Chemistry at Technical University, Munich Honorary Professor of Chemistry at Jilin University, Changchung Member of the Board, CRH plc, Dublin Member of the Supervisory Board, SGL Carbon AG, Wiesbaden
Erwin W. Heri	Chairman of the Board of Directors, Valartis Bank AG, Zurich Chairman of the Board of Directors, Valartis Group AG, Baar E.o. Professor of the University of Basel Guest Lecturer at HEI of the University of Geneva Member of the Board of Directors, Losinger AG, Bern Member of the Board of Directors, SOFISA SA, Fribourg Chairman of the Investment Committee of State Pension (Publica), Bern Member of the Advisory Board, Infrassure Ltd., Zurich
Gertrud Höhler	Management Consultant Member of the Board of Directors, Bâloise-Holding, Basel Member of the Board of Directors, Georg Fischer Ltd., Schaffhausen
Jean-Marie Pierre Lehn	Professor of Chemistry, Nobel Prize Laureate Member of the Scientific Board of the Novartis Venture Fund, Basel Member of the Haut conseil de la sciénce et de la technologie, Paris Member of the Supervisory Board, Bruker BioSpin SA, Wissembourg
Peter Littmann	Chairman and Chief Executive Officer, Brandinsider GmbH, Hamburg Member of the Board, Ruckstuhl AG, Langenthal Member of the Board, Charles Vögele Holding AG, Pfäffikon/SZ Member of the Supervisory Board, Rodenstock GmbH, Munich Chairman of the Advisory Board, Haus Rabenhorst KG, Unkel Member of the International Advisory Board, Nyenrode Business Universiteit, Breukelen Member of the Harvard University Art Museum's Visiting Committee, Cambridge, MA
Uli Sigg	Vice Chairman of the Board of Directors, Ringier AG, Zurich Member of the Advisory Board of China Development Bank, Beijing
Thomas Koch Secretary (not Member of the Board)	None

FUNCTIONING OF THE BOARD

The Company's "Rules Governing the Organization" and Committee charters set out in detail the powers and responsibilities of the Board. In order for the Board to pass resolutions, at least half of its members must be personally present, which may be deemed satisfied if simultaneous communication is ensured, such as by telephone or video conference. The Board shall meet at the invitation of the Chairman every time the need arises. By stating the reasons, each Member of the Board may demand that the Chairman convene a meeting or includes an item on the agenda. The full Board usually meets eight times per year. Normally, the duration of these meetings ranges between four and eight hours [DCG 3.5.3]. In 2007, the Board held eleven meetings. The non-executive Members of the Board met once in a separate session under the leadership of the Vice Chairman.

TOPICS OF THE BOARD IN 2007

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 ("AGM") of the shareholders, the Board put particular emphasis for the financial year 2007 on the following topics: top management review and appointments, group business strategy, Operational Agenda, mergers and acquisitions, positioning of segments and setting of their targets, assessment of the global economy, implementation of the new enterprise resource planning system (SAP), REACH, delisting from the New York Stock Exchange, Code of Conduct including "zero tolerance" policy, compliance, competition law and risk analysis.

TERM OF OFFICE [DCG 3.4]

The Members of the Board are individually elected by the General Meeting of Shareholders for a term of between one and four years to allow for a staggered Board [DCG 3.4.1]; a re-election is possible [DCG 3.4.1]. For an overview of the individual election terms, see the table below [DCG 3.4.2]. A Board Member may tender his or her resignation during the term of his or her office. The Shareholders' Meeting may vote to remove a Board Member.

NAME	YEAR APPOINTED TO BOARD	YEAR TERM EXPIRES
Armin Meyer Chairman and CEO	1997	2008
Beat Hess Vice Chairman	2006	2010
Utz-Hellmuth Felcht	2007	2010
Erwin W. Heri	1997	2011
Gertrud Höhler	1997	2008
Jean-Marie Pierre Lehn	1997	2009
Peter Littmann	1997	2010
Uli Sigg	1999	2011
Thomas Koch Secretary (not Member of the Board)	2004	-

THE CHAIRMAN OF THE BOARD AND CEO [DCG 3.5.1]

The Chairman of the Board is elected by the Board from its Members. As such, the Chairman of the Board is responsible for the invitation to and the agenda of the Board meetings, ensures that the Board defines the strategic direction of the Group within its competences, and is responsible for the implementation of the Group strategy as defined by the Board, for optimizing shareholder value and for safeguarding the interests of other stakeholders. The Chairman of the Board represents the overall interests of the Company, ensures close cooperation between the Board and the Executive Committee and supervises the implementation of the resolutions adopted by the Board.

The Company has until the end of 2007 opted to combine the functions of Chairman and CEO. In the Board's view, the advantages of having fast decision-making processes, as well as the timely, complete and accurate information flow between the Board and the management of the Company, complemented by a strong Lead Director have outweighed the potential risk the combination of the functions may have.

As of January 1, 2008, the functions of Chairman and CEO are separated in line with the Company's commitment to strenghten corporate governance.

THE VICE-CHAIRMAN [DCG 3.5.1]

The Vice Chairman represents the Chairman in the latter's absence.

BOARD COMMITTEES [DCG 3.5]

Three standing Board Committees in the areas of audit, compensation and human resources/nomination provide guidance and support to the full Board.

AUDIT COMMITTEE

Composition: the Audit Committee is composed of three non-executive Members of the Board. At least once a year, the Committee meets without other representatives of the Company with the internal audit department and the audit partner in charge of the external audit.

Mission: the Audit Committee evaluates the independence, objectivity and effectiveness of external and internal auditors, approves and pre-approves auditing and other services to be provided by the external auditors, evaluates business risk assessment, scope and overall audit plan, assesses the quality of financial accounting and reporting, reviews audit results and monitors compliance with specific laws and regulations governing the preparation and filing of financial statements. In addition, the Audit Committee nominates for the attention of the Board the Head of Internal Audit and proposes the nomination of the external auditors to the full Board. The Audit Committee reviews complaints regarding accounting, internal accounting controls or auditing matters. To facilitate the submission of such complaints ("whistleblowing"), the Company has set up webpages both in its intranet (under: "Corporate Governance") and on its internet site (http://www.ciba.com/cmp-abo-cog-contactthechairman.htm).

COMPENSATION COMMITTEE

Composition: the Compensation Committee is composed of three non-executive Members of the Board. The Vice Chairman chairs the Compensation Committee.

Mission: the Compensation Committee develops, recommends and reviews, for the attention of the Board, the group compensation principles in accordance with the overall Company objectives and proposes compensation of the Members of the Board and of the Executive Committee to the full Board for approval [DCG 5.1].

HUMAN RESOURCES AND NOMINATION COMMITTEE*

Composition: the Human Resources and Nomination Committee is composed of three non-executive Members of the Board and the Chairman of the Board who chairs the Human Resources and Nomination Committee.

Mission: the Human Resources and Nomination Committee develops, for the attention of the Board, the objectives and principles of the human resource policy and its implementation. The Human Resources and Nomination Committee defines the principles for the selection of candidates for election or re-election to the Board by the Annual General Meeting and prepares a selection of candidates in accordance with these criteria and develops strategies on management and cooperation, management development and education and enhancement of the Group's reputation in the human resources area.

As of January 2008, the mission of the Human Resources and Nomination Committee has been redefined and functions in the area of Corporate Governance have been added, including the development of Corporate Governance principles for the attention of the Board and the supervision of the annual performance evaluation of the Board.

The functions of the former Finance Committee have been assigned to the full Board of Directors.

* From January 1, 2008, this committee was renamed the Nomination + Corporate Governance Committee

BOARD COMMITTEE MEMBERSHIPS [DCG 3.5.2]

NAME	AUDIT COMMITTEE	HUMAN RESOURCES AND NOMINATION COMMITTEE	COMPENSATION COMMITTEE
A. Meyer		●	
B. Hess	❍		●
U.-H. Felcht		❍	❍
E.W. Heri	●		
G. Höhler		❍	❍
J.-M. P. Lehn			
P. Littmann		❍	❍
U. Sigg	❍		

● = Chairman
❍ = Member

FUNCTIONING OF THE BOARD COMMITTEES

The Board Committees meet between two and six times per year. The duration of such meetings generally is between two and four hours. [DCG 3.5.3].

The Company's "Rules Governing the Organization" and Committee charters set out the powers and responsibilities of the Board Committees. In order for the Board Committees to pass resolutions, at least half of their Members must be personally present, which may be deemed satisfied if simultaneous communication is ensured, such as by telephone or video conference.

BUSINESS BEHAVIOR

So as to promote honest and ethical conduct, legal compliance, prompt internal reporting, accountability, and full, fair, accurate, timely and understandable disclosure in public reports, the Company relies on its Code of Conduct which applies to all Ciba employees worldwide and on its Financial Code of Ethics which applies to about 300 individuals playing a major role in the financial reporting process. Both documents can be downloaded (http://www.ciba.com/cmp-abo-cog-codes.htm). In 2007, the Company did not grant any waiver to the CEO, the CFO, or the Group Controller, whether implicit or explicit, from any provision of its Code of Conduct or its Financial Code of Ethics.

ADDITIONAL INFORMATION

With the exception of Armin Meyer, who was, until December 31, 2007, also CEO, all other Board Members are both non-executive Directors and independent from the Company [DCG 3.1.b]. The term "independent" satisfies the criteria of the Swiss Code of Best Practice. With the exception of Armin Meyer, none of the non-executive Members of the Board has ever been a member of the management of the Company or any of its subsidiaries and none of them has or had a substantial business relationship with the Company or any of its subsidiaries in the last four financial years [DCG 3.1.c].

There is no crossinvolvement among the Board Members and the boards of directors of other listed Swiss or foreign companies [DCG 3.3]. Other than as disclosed under Change of Control Provisions hereunder, there is no service contract between any Member of the Board and the Company providing for benefits upon termination of employment.

THE EXECUTIVE COMMITTEE

ARMIN MEYER
Chairman of the Board and CEO*
Swiss

BRENDAN CUMMINS
Chief Operating Officer**
Irish

JÜRG FEDIER
Chief Financial Officer
Swiss

MARTIN RIEDIKER
Chief Technology Officer
Swiss

GIORDANO RIGHINI
Head of Plastic Additives
Italian

HERMANN ANGERER
Head of Coating Effects***
Austrian

JAMES MCCUMMISKEY
Head of Water & Paper Treatment
British

THOMAS ENGELHARDT
Head of Coating Effects***
German

* Armin Meyer was CEO until December 31, 2007. He remains Chairman of the Board.

** Brendan Cummins took over as CEO on January 1, 2008.

*** Thomas Engelhardt, former Head of Process & Lubricant Additives, took over from Hermann Angerer as Head of the Coating Effects Segment on January 1, 2008.

INFORMATION ON THE MEMBERS OF THE EXECUTIVE COMMITTEE [DCG 4.1]

ARMIN MEYER became Chairman of the Board of Ciba Specialty Chemicals Holding Inc. in autumn 2000. From January 1, 2001, until December 31, 2007, he in addition acted as Chief Executive Officer. He has been a Member of the Board of the Company since its spin-off in 1997. Previously, Armin Meyer was Head of the global Building Technologies Segment of ABB Ltd. As of 1995, he was a Member of the Executive Committee of ABB, a global technology Group. Armin Meyer started his career in 1976 when he joined the former Brown Boveri Ltd. (BBC) as development engineer. In 1980 he became Head of Research and Development for industrial motors and took over as Head of the international business unit for electrical power generators in 1984. Further steps included the presidency of ABB Drives Ltd. as well as of ABB Power Generation Ltd. In 1995, he became Head of the Power Generation Segment. In 1998, he took over as Head of the Building Technologies Segment. Armin Meyer, born 1949 in Zurich, Switzerland, holds a Ph.D. in electrical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich. In addition to his responsibilities at ABB, Armin Meyer was also Professor for Electrical Engineering and Drives at ETH, Zurich for twelve years.

BRENDAN CUMMINS became Chief Operating Officer on October 1, 2005. On January 1, 2008, he became Chief Executive Officer. He joined Ciba-Geigy in Ireland in 1971 as an Accountancy Student. In 1974, he assumed the position of Planning and Information Manager in Ireland. In 1979, he moved to Ciba-Geigy Singapore as Treasury Head and, in 1981, was appointed Head of Finance in Administration South East Asia. In 1984, he transferred to Hong Kong as Head of Finance and Administration North Asia with project responsibility for China. Following Management Training at Harvard in 1990, he moved to the Philippines as Head of Pharmaceutical Division and later was appointed, in combination, Group Company Head. In 1994, he transferred to the U.K. as Head of Finance and HR of Ciba-Geigy Horsham. In 1995, he returned to the Far East as Group Company Head China and, in 1997, assumed the position of Regional President Greater China for Ciba. In 1999, he moved to Basel and was appointed Global Head of Whiteners and, in 2000, he established and headed the Global Business Unit Home & Personal Care. In 2001, he worked for Irish Fertilizer Industries as Chief Executive Officer. In December 2001, he rejoined Ciba as a Member of the Executive Committee and Executive Vice President International Coordination and Human Resources. From early 2004 until September 2005, he was Head of the Plastic Additives Segment. He is a qualified accountant and is a Fellow of The Association of International Accountants.

JÜRG FEDIER was appointed as Chief Financial Officer effective mid March 2007. Jürg Fedier joined Dow Chemical Company in Horgen, Switzerland, in 1978. After a few years in sales, he moved into finance, first as Credit Supervisor and later with responsibility for all operational treasury activities in various regions of Europe as well as the Middle East and Africa. Jürg Fedier was named Treasurer of Dow Germany in 1987 and Assistant Treasurer USA in 1993. Two years later, he became Treasurer of Dow Japan and subsequently established and managed the Financial Risk Center in Singapore for all of Dow Chemical Asia Pacific. In 1998, Jürg Fedier became Global Business Finance Director of the division Epoxy Products and Intermediates in Horgen, Switzerland, before being appointed Global Business Finance Director of Thermosets in 2000, located in the USA. Thermosets was later merged with Performance Chemicals, and Jürg Fedier served as Vice President Finance of this newly created division. In March 2006, Jürg Fedier returned to Switzerland and has since served as Head of Finance at Dow Europe and as member of the Executive Board. Over the course of his career, he has been a member of several boards.

MARTIN RIEDIKER was appointed Chief Technology Officer in 2001. He joined Ciba-Geigy in 1982 as a photochemist in central research at Ciba-Geigy in Basel. In 1988, he moved to the United States as Vice President, Research and Development (R&D) for the Polymers Division and was later appointed Vice President and General Manager of the North American Resins Business Unit in 1991. He was named Head of Ciba's U.S. Polymers Division in 1994. Martin Riediker was named as Global President of the Consumer Care Division in 1995. He also took direct charge of the Detergents and Cosmetics Business Units. In 1997, he was named Global President of the Consumer Care Division and became a Member of the Executive Committee of Ciba. Martin Riediker has a Doctorate in Chemistry and did post-doctoral studies at Princeton University.

HERMANN ANGERER was appointed Head of the Coating Effects Segment in 2001. He joined Ciba-Geigy in 1981 as a development chemist in the Additives Division in Basel. In 1985, he assumed the global marketing responsibility for radiation curing additives in the Business Unit Imaging and Coating Additives. In 1990, he was appointed Head of the Business Unit Additives for Lubricants. In 1996, he moved to Japan as Head of the Additives Division, responsible for the markets in Japan and South Korea. In 1999, he moved to Germany, responsible for the German holding company of Ciba and the Additives Division in the Central Europe region. Hermann Angerer holds a Ph.D. in Chemical Engineering from the Swiss Federal Institute of Technology (ETH) in Zurich.

JAMES MCCUMMISKEY was appointed Head of the Water & Paper Treatment Segment effective February 1, 2007. James McCummiskey joined Ciba in the UK in 1973. Over the next two decades, he gained wide experience in the pigments business, first as engineer and production manager and later as Human Resources Manager, leading the implementation of a major change program in the business. In 1996, James McCummiskey assumed global leadership of the Business Unit Classical Pigments and two years later became Head of the Colors Division in the UK. In 2001, he was named Managing Director of the Water Treatment site in Bradford, one of Ciba's largest and most complex sites worldwide, where he implemented a demanding productivity improvement program. In this function he also joined the Segment Leadership Team Water & Paper Treatment. In 2003, James McCummiskey became global Head of Business Line Water Treatment while continuing to serve as Managing Director Bradford and Grimsby.

GIORDANO RIGHINI was appointed Head of the Plastic Additives Segment in 2005. He joined Chimosa Chimica Organica in Bologna, Italy in 1968, initially in the Research and Development Department, and later in the Production Department, as Group Leader. In 1979, Chimosa was taken over by Ciba-Geigy and became part of the Additives Division. In 1988, he was the Head of Production for the Pontecchio Marconi facility and, in addition, responsible for Process Development and Technical Services. In 1991, Giordano Righini became Site Manager and, in 1992, he became Head of the Additives Division for Italy. In 1997, after the establishment of Ciba, he was promoted to Regional President of Southern Europe, as well as Managing Director of the Italian subsidiary. In 2004, he became global Head of the Business Line Coatings in Ciba's headquarters in Basel, Switzerland. Giordano Righini holds a diploma in chemistry from the Forli Technical College, Italy, and an honorary degree in chemistry for achievements in the industry from the University of Bologna, Italy.

SIGNIFICANT POSITIONS AND POLITICAL MANDATES OUTSIDE THE COMPANY [DCG 4.2.A/B/C]

NAME	POSITIONS
Armin Meyer	Member of the Board of Directors, Zurich Financial Services, Zurich Member of the Board, CEFIC (European Chemical Industry Council), Brussels Member of the Foundation Board IMD – International Institute for Management Development, Lausanne
Brendan Cummins	None
Jürg Fedier	None
Martin Riediker	Member of the Board, SGCI Schweizerische Gesellschaft für Chemische Industrie, Zurich Member of the Commission for Science and Research, economiesuisse, Zurich Member of the Advisory Board, Pangaea Ventures Ltd., Vancouver and Hillsborough, NJ Member of the Advisory Board, Xintec Inc, Research Triangle Park, NC
Hermann Angerer	None
James McCummiskey	None
Giordano Righini	None

FUNCTIONING OF THE EXECUTIVE COMMITTEE

The Executive Committee consisted of the Chairman's Committee under the chair and leadership of the CEO and the Operations Committee, under the chair and leadership of the Chief Operating Officer ("COO"). The Chairman's Committee was responsible for the development and preparation of the Group business strategy, Group policies and financial risk management to the attention of and approval by the Board and its Committees. Together with the Operations Committee, the Chairman's Committee was responsible to implement the strategy of the Group. The Chairman's Committee was composed of the Chairman of the Board and CEO, the COO, the Chief Financial Officer ("CFO") and the Chief Technology Officer ("CTO"), with regular attendance of the Head of Law and Environment.

The Operations Committee was focusing on the operational management of the business [DCG 3.6]. It was composed of the COO, the CFO and the Segment Heads, with regular attendance of the Head of Law and Environment.

As of January 1, 2008, the functions of the Chairman's Committee and the Operations Committee have been assigned to the Executive Committee and the CEO, respectively.

The CEO is appointed by the Board. In this function, the CEO is responsible for the management of the Company. The CEO ensures the information flow inside and outside the Company.

There are no management agreements or other agreements between the Company or its management bodies and any third parties [DCG 4.3] providing for any persons referred to above to be elected a Member of the Company's Executive Committee.

CHANGES SINCE JANUARY 1, 2008 [DCG INTRODUCTION 8]

Effective January 1, 2008, Armin Meyer, Chairman of the Board and CEO, handed over the mandate of the CEO to Brendan Cummins. The division of responsibilities of the Executive Committee in a Chairman's Committee under the chair and leadership of the CEO and the Operations Committee, under the chair and leadership of the COO is no longer in effect.

The Human Resources and Nomination Committee has been renamed to Nomination and Corporate Governance Committee, its mission has been redefined and additional functions have been assigned to it.

Also from January 1, 2008, Thomas Engelhardt, formerly Head of Business Line Process & Lubricant Additives, took over as Head of the Coating Effects Segment from Hermann Angerer. The CV of Thomas Engelhardt can be found under the following link: http://www.ciba.com/cmp-abo-org-executivecommittee.htm

COMPENSATION REPORT [DCG 5 and Appendix 1 Swiss Code]

COMPENSATION COMMITTEE

The Board of Directors has appointed a Compensation Committee consisting of non-executive and independent members of the Board.

ROLE OF THE COMPENSATION COMMITTEE OF THE BOARD

The Compensation Committee develops, recommends and reviews, for the attention of the Board, the group compensation principles in accordance with the overall Company objectives and proposes compensation of the Members of the Board and of the Executive Committee to the full Board for approval. The Compensation Committee meets at least twice a year and reports to the full Board about the compensation process. Where necessary, it proposes changes to the compensation system of the Company

THE COMPENSATION SYSTEM

The Board fees of the Members of the Board and the total compensation of the Members of the Executive Committee are established according to a comparative analysis of compensation paid within selected peer groups of international companies.

By combining short-term incentives linked to measurable and pre-determined financial targets, and long-term incentive elements linked to success targets of the Company or certain businesses of the Company, the compensation system is designed in a way that the interests of senior management are aligned with the interests of the Company and its shareholders. Compensation is reviewed and fixed annually.

The compensation system does not set any unintended enticements or contain any components that could be counter-productive to the objectives of the compensation system.

Employment contracts with members of the Executive Committee do not contain unusually long notice periods or contract durations. There are no agreements on compensation in case of change of control ("golden parachutes" or similar) in place. The Company has not entered in 2007 into any agreements on severance pay or end of service agreements and does not intend to do so in the future except in case of extraordinary achievements.

The allocation of the elements of compensation is discussed in the Compensation Committee of the Board of Directors, which makes its recommendation to the full Board. The latter makes the ultimate decision with respect to such allocation. For a more detailed description of the share based compensation plans, see Note 18 to Consolidated Financial Statements of this Annual Report.

ELEMENTS OF THE COMPENSATION SYSTEM

The non-executive Members of the Board are compensated by means of a fixed Board fee which is payable in cash and/or unrestricted shares in the Company, depending on the choice the Board Member has made in his/her mandate agreement. There is no variable element in the compensation of the non-executive Members of the Board.

The compensation system for members of the Executive Committee consists of both fixed and variable elements.

The fixed salaries of the members of the Executive Committee are established according to a comparative analysis of base salaries paid within selected peer groups of international companies.

The variable elements consist of cash pay and an allocation of shares in the Company. They are designed in relation to sustainable success of the Company as a whole and/or of a business of the Company and can include components related to individual performance and less measurable personal elements, such as leadership qualities, which are seen as a key capability of senior executives. The variable components are cancelled or reduced if the relevant targets are not met.

The Company does not allocate options to either the Board of Directors or the Members of the Executive Committee.

In 2007, the cash component of the variable compensation was based on the achievement of short-term financial targets set at the beginning of the year for the key performance indicators operating income margin, free cash flow, and net sales development percentage in local currencies. For an explanation of these terms please refer to the Glossary of Financial Terms at the end of this Annual Report. In addition, a personal target was set for each member of the Executive Committee. Variable compensation can be zero if relevant targets are not achieved. On target level, the cash component of the compensation reflected, as a percentage of the annual base salary, 50 percent for the CEO and the COO and 40 percent for the other members of the Executive Committee, respectively. The final amount depended on the level of achievement of all of the targets mentioned above and was decided and approved by the Board.

Share based compensation in 2007 consisted of both unrestricted and restricted share units with a restriction period of three years to ensure alignment with the attainment of medium and long-term interests of the Company.

As from 2008 onwards, the long-term incentives for Members of the Executive Committee will be governed by the new Ciba Equity Plan (CEP), according to which half of the share allocation will be in the form of fixed share units with a restriction period of three years and the other half will be based on performance share units. The allocation of performance share units is variable and the number of units allocated to the individual depends on the actual operating income (EBIT) achieved for the past year. These allocated performance share units are subsequently linked to the actual achievement of average operating income (EBIT) and total shareholder return targets (TSR) as measured over a three year performance period. The TSR is compared to a peer group and is defined as the difference between the share price at the end of a defined measuring period and the share price at the beginning of the measuring period, plus:

- any dividends paid or payable during the measuring period
- any extraordinary returns (such as, but not limited to, reductions in nominal value and proceeds from share buy back programs) paid to shareholders during the measuring period

The TSR is expressed as a percentage over the share price at the beginning of the period.

The final payout of performance share units after the measuring period (first time in the year 2011 for the performance period 2008 – 2010) can range from zero shares in the case of underachievement of all targets to 150 percent of the base allocation should the relevant targets for operating income margin (EBIT) and total shareholder return be exceeded.

For details regarding the total compensation paid out in 2007 to Members of the Board, to the Executive Committee and its highest paid Member, to former Members, as well as any shares held and loans outstanding to the above persons and closely linked persons, please refer to Note 8 to the Financial Statements of Ciba Specialty Chemicals Holding Inc.

SALARY COMPARISONS AND SURVEYS

The Company regularly participates in market surveys of acknowledged providers. These surveys are used as a benchmark for the compensation of members of the Executive Committee. The Company employs its own staff, who operate under the guidance of the Chairman of the Compensation Committee, to evaluate these surveys. The Compensation Committee makes its proposal to the full Board based on its own assessment, reasonably taking into account of the results of the surveys. The survey providers used do not hold any other mandates other than advice and consultancy in the area of compensation and benefits for senior management.

ORGANIZATIONAL AND CAPITAL STRUCTURE

Ciba Specialty Chemicals Holding Inc. is the ultimate holding company of the Ciba Specialty Chemicals group. Its shares are listed on the SWX Swiss Exchange, traded on virt-x, and its American Depositary Shares ("ADSs") traded on the New York Stock Exchange until July 20, 2007. As at December 31, 2007, the Company's market capitalization amounted to CHF 3 513 499 973 (66 923 809 shares at a price of CHF 52.50 each).

SECURITY	STOCK EXCHANGE	TICKER SYMBOL	SECURITY NUMBER	ISIN CODE
Share with CHF 1 nominal value	SWX/virt-x	CIBN	581 972	CH 000 581972 4

The Company's nominal Share Capital amounts to CHF 69 064 617 and is divided in 69 064 617 shares with a nominal value of CHF 1 each. On May 17, 2005, the nominal value per share was reduced from CHF 3 to CHF 1, giving effect to a resolution of the Company's shareholders taken on March 3, 2005 [DCG 2.1/2.3]. The Company only has one class of shares and has no bonus certificates [DCG 2.4/2.5]. Each share is entitled to any dividends proposed by the Board and approved by the shareholders, and has one vote, subject to the limitations set out below. The shares do not have any preferential rights attached to them. The Company had and has the following ordinary, authorized and conditional capitals [DCG 2.2/2.3]:

DATE OF ARTICLES OF ASSOCIATION	NOMINAL VALUE OF SHARES	ORDINARY SHARE CAPITAL	AUTHORIZED CAPITAL		CONDITIONAL CAPITAL		CONDITIONAL CAPITAL FOR EMPLOYEE PARTICIPATION	
Article in Articles of Association		4 para. 1		4 para. 3		4 para. 4		4 para. 5
	(CHF)	(CHF)	Number of shares (million)	Nominal value (CHF million)	Number of shares (million)	Nominal value (CHF million)	Number of shares (million)	Nominal value (CHF million)
April 20, 1998	10	721 301 170	4	40	4	40	2	20
March 22, 2002	9	649 171 053	4	36	4	36	2	18
March 6, 2003	6	432 780 702	4	24	4	24	2	12
February 26, 2004	3	212 479 851	4	12	4	12	2	6
March 3, 2005	1	69 064 617	4	4	4	4	2	2

For additional information please refer to article 4 of the Company's Articles of Association ("Articles"), which can be downloaded (http://www.ciba.com/cmp-abo-cog-articlesofassociation.htm). The German version, which is legally binding in Switzerland, can be downloaded from the same internet address.

For information about the Company's major shareholders see Financial Review – Note 7 to the Financial Statements of Ciba Specialty Chemicals Holding Inc. [DCG 1.2]. Updated information can be retrieved from the SWX Swiss Exchange (http://www.swx.com/admission/being_public/disclosure/major_shareholders_en.html). The Company has no cross holdings [DCG 1.3] nor has it executed any pooling or management agreements [DCG 4.3].

GROUP STRUCTURE [DCG 1.1]

For the Company's major subsidiaries, including listed companies and group structure, see Financial Review – Major Consolidated Subsidiaries and Associated Companies [DCG 1.1.2 and 1.1.3]. For the description of the operational structure of the Company, see Description of Segments in Business Segment Data [DCG 1.1.1].

VOTING CAP AND REGISTRATION RESTRICTIONS, NOMINEES [DCG 2.6, 6.1]

No shareholder may be registered as a shareholder with voting rights for more than 2 percent of the Company's Share Capital. A shareholder purchasing more than 2 percent of the Company's Share Capital will be recorded in the Company's Share register for the shares in excess of 2 percent of the Company's Share Capital as a shareholder without voting rights. The Board or a committee designated by the Board may, however, on a case-by-case basis allow some or all of the excess shares to be registered with voting rights. In 2007, the Board granted no such exception and currently no shareholder has the benefit of any such exception [DCG 2.6.2]. For purposes of the 2 percent rule, individuals and/or legal entities acting in concert are considered to be one shareholder [DCG 2.6.1].

Nominees may be entered with the right to vote for more than 2 percent of the voting stock if the nominee discloses the names, addresses and number of shares of those persons for which it holds the shares [DCG 2.6.3].

For information about the Company's treasury stock, see Note 17 to the Consolidated Financial Statements.

At the Company's general meeting, no person may vote more than 5 percent of the Company's stock, with the exception of depositaries, corporate bodies, independent proxies or nominees complying with their duty to disclose the names, addresses and number of shares of those persons for which they hold the shares [DCG 6.1.1]. In 2007, the Board granted no exception with regard to voting cap restrictions [DCG 6.1.2]. In addition to those proxies, a shareholder may also be represented by another individual at a general meeting, but this individual is required to be a shareholder of the Company [DCG 6.1.4]. A resolution on the restriction to vote and on the removal of such a restriction is subject to the approval of two-thirds of the shares represented at a shareholders' meeting [DCG 6.1.3].

ANNUAL GENERAL MEETING AND EXTRAORDINARY SHAREHOLDERS' MEETINGS

Any shareholder may demand that an item be put on the agenda of the AGM if she or he holds shares representing a nominal value of at least CHF 100 000. This equals 0.145 percent of the Company's total shares. A demand to have an item put on the agenda must be made in writing at least 60 days before the AGM [DCG 6.4]. For the AGM to be held on March 7, 2008, the Company published the deadline date (January 7, 2008) on its website on December 5, 2007. The record date for participation at the AGM is March 5, 2008, while persons who have subsequently become shareholders may register their voting rights at the AGM Office if the shareholder can prove that he or she is the owner of the shares and that these shares are not being voted otherwise [DCG 6.5]. The Articles do not contain any provisions with regard to calling the AGM that differ from the provisions of the Swiss Code of Obligations [DCG 6.3].

There is no provision in the Articles or under Swiss law requiring a presence quorum for the holding of shareholders' meetings. Resolutions generally require the approval of the "majority" of the shares represented at a shareholders' meeting (i.e. a simple majority of the shares represented at the shareholders' meeting, with abstentions having the effect of votes against the resolution). A resolution passed at a shareholders' meeting with the affirmative vote of at least two-thirds of the shares represented at such meeting is required for [DCG 6.2]:

(i) any change to the Company's business purpose,
(ii) the creation of shares with privileged voting rights,
(iii) the creation of restrictions on the transferability of registered shares, or the elimination of transfer restrictions [DCG 2.6.4],
(iv) an authorized or conditional increase in the Company's Share Capital,
(v) an increase in the Company's Share Capital by way of capitalization of reserves ("Kapitalerhöhung aus Eigenkapital"), against contribution in kind, for the acquisition of assets, or involving the grant of special privileges,
(vi) the restriction or elimination of preemptive rights of shareholders,
(vii) a relocation of the domicile of the Company, or
(viii) the decision regarding merger, split and reorganization to the extent such quorum is required by the Swiss Merger Act.

In addition, any provision in the Articles for a greater voting requirement than is prescribed by law or the existing Articles must be adopted in accordance with such greater voting requirements.

DIVIDENDS AND DIVIDEND POLICY

The amount of dividends to be paid by the Company to its shareholders depends on general business conditions, the Company's financial performance and other factors. Under Swiss law, dividends may be paid out only if approved at a shareholders' meeting. The Board may propose that a dividend be paid out, but cannot itself set the dividend. In practice, the shareholders usually approve the dividend proposal of the Board.

Since its inception in 1997, the Company has paid or proposed to pay the following amounts per share:

AGM YEAR	DIVIDEND PAYMENT (CHF)	CAPITAL REDUCTION PAYMENT (CHF)
1998	2	0
1999	2	0
2000	2	0
2001	2	0
2002	2	1
2003	0	3
2004	0	3
2005	1	2
2006	3	0
2007	3	0
2008(i)	2.50	0

(i) For the financial year 2007, the Board proposes to the shareholders to pay a dividend of CHF 2.50 per share. The shareholders will vote on this proposal at the Company's AGM of shareholders on March 7, 2008. If the shareholders approve this proposal, the dividend payment is expected to be made on March 12, 2008.

CONVERTIBLE BONDS AND WARRANTS/OPTIONS [DCG 2.7]

With the exception of the Company's employee participation programs, the Company has no equity linked debt outstanding.

ADDITIONAL INFORMATION

CHANGE OF CONTROL PROVISIONS [DCG 7]

If a shareholder acquires securities of a listed Swiss company and thereby exceeds the threshold of 33 1/3 percent of the voting rights, it has to offer to acquire the remaining shares ("mandatory offer obligation"). By shareholders' resolution, this threshold may be raised to 49 percent ("opting up"). A company may also opt out of the mandatory offer obligation. In its Articles, the Company has no opting out or opting up provisions [DCG 7.1].

Until 2007, according to employee retention agreements with the Company, all Members of the Executive Committee plus three senior managers were entitled to payments for severance resulting from a change of control.

Effective February 1, 2007, the Company and all of the respective individuals agreed without any compensation to cancel the existing agreements.

AUDITORS [DCG 8]

The Company's auditors are Ernst & Young AG, Zurich. They have been elected by the shareholders at the AGM 2007 until the AGM 2008 [DCG 8.1.1]. The Board, which bases its proposal upon a recommendation made to it by the Audit Committee, will propose that Ernst & Young Ltd be re-elected for another year. At the Company's AGM to be held on March 7, 2008, the shareholders will vote on this proposal.

Ernst & Young AG's lead audit partner, Cherrie Chiomento, has supervised the Company's audit since 2004 [DCG 8.1.2].
Fees paid by the Company in 2006 and 2007 to its auditors were as follows [DCG 8.2/8.3]:

	2007		2006	
	THOUSAND CHF	IN % OF TOTAL FEES	THOUSAND CHF	IN % OF TOTAL FEES
Audit fees	6 761	92%	8 243	65%
Audit-related fees	337	4%	4 352	34%
Tax fees	284	4%	178	1%
All other fees	3	0%	9	0%
Total fees	7 385	100%	12 782	100%

2007 audit-related work includes services in connection with the implementation of the new Company-wide information technology system and statutory audits of minor acquisitions. Tax services include assistance with tax filings and transfer pricing studies. The Audit Committee maintains a policy for the pre-approval of audit and of non-audit services. A copy of this policy can be downloaded (http://www.ciba.com/cmp-abo-cog-codes.htm). The auditors of the Company are present at those Board meetings during which the annual accounts of the Company are discussed and the items and proposals to the AGM of the shareholders of the Company are decided upon. They are also present at one of the Company's Disclosure Committee meetings and at the meetings of the Audit Committee where audit mandate and audit planning are discussed. Any other participation is as required. In such meetings, the Board and the Audit Committee also assess and discuss the findings of the auditors and evaluate the quality of their services [DCG 8.4]. The audit fees will be determined according to a yearly benchmark made with comparable companies.

INFORMATION POLICY [DCG 9]

The Company's policy is to openly, clearly and regularly inform its stakeholders of all relevant developments. As a primary tool, the Company communicates through its internet site (http://www.ciba.com) and by email. The Investor Relations homepage (http://www.ciba.com/inv-index.htm) contains comprehensive information for investors. The Company – About Us page contains comprehensive information on the Company, including links to Corporate Governance, Organization, Social Responsibility and Corporate Publications (http://www.ciba.com/cmp-about.htm). Interested parties may also subscribe to a news release email service (http://www.ciba.com/med-subscription.htm).

The Company is listed on the SWX Swiss Exchange (http://www.swx.com; ticker symbol = CIBN). It regularly files news and reports with the SWX.

The reports furnished or filed by the Company with the U.S. stock exchange supervision authority, the SEC, until the Company's deregistration in 2007 can be downloaded from the SEC's Edgar database (http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001035497&owner=include&count=40).

The Company's official means of communication is the Swiss Official Gazette of Commerce (http://www.shab.ch), while the invitation to the Company's AGM is also sent to the registered shareholders by mail. In addition, the Company publishes the AGM meeting notice in several newspapers in Switzerland. The Company homepage contains also all AGM relevant information including the AGM minutes (http://www.ciba.com/inv-inf-agm.htm).

For publication dates of the Company's financial reports, please consult the Investor Relations subpage (http://www.ciba.com/inv-index.htm).

Inquiries by telephone may also be made to: Investor Relations +41 61 636 5081 and to Group Communications +41 61 636 4444.

Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

(FIGURES IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

YEAR IN REVIEW – 2007 COMPARED TO 2006

Sales in 2007 grew to CHF 6 523 million. The Operational Agenda delivered expected savings that overcame higher raw material costs. The strategic repositioning of Ciba to a more focused portfolio produced a 4 percent improvement in operating income before restructuring and CHF 237 million of net income.

	2007	2006
Results of operations		
Net sales	**6 523**	6 352
Gross profit	**1 874**	1 849
Operating income before restructuring, impairment and other charges [(i)]	**552**	531
Restructuring, impairment and other charges [(i)]	**(118)**	(69)
Operating income	**434**	462
Income from continuing operations	**220**	259
Income from discontinued operations, net of tax	**17**	53
Loss on sale of discontinued operations, net of tax	**–**	(353)
Net income (loss)	**237**	(41)
Earnings (loss) per share, basic and diluted:		
Continuing operations	**3.27**	3.91
Discontinued operations	**0.26**	(4.54)
Net income (loss) per share	**3.53**	(0.63)
Other data		
Depreciation and amortization	**357**	359
Net cash provided by continuing operations	**501**	470
Free cash flow	**300**	195
Net debt	**1 913**	1 854
Shareholders' equity at year-end	**3 305**	3 214
Dividend per share [(ii)]	**2.50**	3.00
Key performance ratios		
Net sales development	**3%**	5%
Net sales development in local currencies	**2%**	4%
Expressed as a percentage of sales		
Gross profit	**28.7%**	29.1%
Operating income before restructuring, impairment and other charges [(i)]	**8.5%**	8.4%
Operating income	**6.7%**	7.3%
Income from continuing operations	**3.4%**	4.1%
Net income (loss)	**3.6%**	(0.7)%

[(i)] Referred to throughout this Management's Discussion and Analysis as "restructuring".

[(ii)] The Board of Directors proposes a cash dividend payment to the Company's shareholders in 2008 totaling CHF 2.50 per share, based on 2007 results, which is reflected in the table above. The per share amounts presented above for 2006 reflect the CHF 3.00 per share dividend that was paid in 2007, based on 2006 results.

EXECUTIVE SUMMARY

The strategic repositioning of Ciba (the "Company") to a more focused portfolio is producing results with a 4 percent improvement in operating income before restructuring and CHF 237 million of net income in 2007.

Operating income excluding restructuring improved in 2007 from CHF 531 million in prior year to CHF 552 million and the related operating income margin improved to 8.5 percent in 2007. The Operational Agenda is delivering improved efficiency, reduced costs and better margins which together more than compensated for raw material cost increases of around 3 percent.

In the Company's segments, profitability in Plastic Additives remained high, and the actions taken in Water & Paper Treatment continued to deliver improvements from quarter to quarter. Coating Effects continued to withstand much of the impact of the continued slowdown in the automotive and construction sectors in North America, but faced some high raw material costs and an impact on margins in the fourth quarter from targeted temporary shutdowns of several production units.

The focus in 2008 is on implementing the Operational Agenda, decisively managing margins, leveraging the Company's innovation power, driving operational excellence and continuing to optimize working capital. These actions aim to increase annual sales in line with GDP and improve operating income by around 10 percent per year and free cash flow by around 20 percent in 2008, with further significant improvements thereafter. Capital and innovation investments will focus on those industries, technologies and geographies that offer attractive returns and build upon the Company's core business strengths. The Company's goal is to create value for its shareholders, ensuring that each business in the portfolio delivers a return on investment that exceeds the cost of capital.

OPERATIONS SUMMARY

Sales in 2007 grew to CHF 6 523 million, 3 percent higher in Swiss francs and 2 percent higher in local currencies than prior year. Asia Pacific continued to show strong growth, up 7 percent in local currencies over 2006, with China again delivering double-digit growth rates. In Europe, where Germany and Eastern Europe showed good growth, overall sales were slightly higher in local currencies. In the Americas, continued solid growth in Central and South America compensated for the slowdown in Canada and from the weak automotive and construction sectors. This combined with flat U.S. sales resulted in overall sales in the Americas remaining almost at prior year levels in local currencies.

Gross profit increased by CHF 25 million over prior year to CHF 1 874 million. Gross profit margin of 28.7 percent declined slightly from the prior year margin. Selling, general and administrative expenses as a percentage of sales improved as strong cost control measures produced a reduction in these expenses in absolute terms from the prior year level.

Operating income excluding restructuring increased by CHF 21 million to CHF 552 million and, as a percentage of sales, increased over prior year to 8.5 percent. These increases resulted from the aforementioned gross profit increase and cost control measures. Higher restructuring costs for the Operational Agenda resulted in operating income including restructuring decreasing by CHF 28 million to CHF 434 million. As a result, operating income margin also decreased to 6.7 percent in 2007 from 7.3 percent in prior year.

FREE CASH FLOW AND NET DEBT

Free cash flow increased by CHF 105 million to CHF 300 million as a result of higher operating cash flows and the sale-leaseback of buildings at one of the Company's sites partially offset by higher capital expenditures for capacity expansion in Asia.

Net debt increased by CHF 59 million from CHF 1 854 million to CHF 1 913 million.

FINANCIAL REVIEW

OVERVIEW

KEY HIGHLIGHTS

- Net income of CHF 237 million delivered
- 3 percent sales growth achieved
- Operational Agenda delivered expected cost savings
- Operating income margin before restructuring increased despite higher raw material costs
- Significantly higher free cash flow produced

SALES DEVELOPMENT

2007 COMPARED TO 2006	
Volume/product mix	**3%**
Price	**(1)%**
Currency	**1%**
Total in Swiss francs	**3%**

GEOGRAPHIC SALES DISTRIBUTION

	2007	2006
Europe	**46%**	44%
Americas [i]	**27%**	29%
Asia Pacific [ii]	**27%**	27%

[i] The Americas are comprised of North, Central and South America.
[ii] Asia Pacific is comprised of Asia, Africa, the Middle East, Australia and New Zealand.

OPERATING INCOME

	2007	2006
Operating income before restructuring	**552**	531
Restructuring	**(118)**	(69)
Operating income	**434**	462
Operating income margin before restructuring	**8.5%**	8.4%

2007 COMPARED TO 2006	
Operating income before restructuring	**4%**

SALES VOLUMES SHOW GROWTH WHILE FAVORABLE CURRENCY EFFECTS OFFSET SLIGHT PRICE DECLINES

Sales for the full year reached CHF 6 523 million, 3 percent higher in Swiss francs and 2 percent higher in local currencies than the previous year (2006: CHF 6 352 million). All Segments delivered sales both in Swiss francs and local currencies above prior year levels along the levels expected as part of the development of global economy. Volume/mix growth was positive in all Segments, with Coating Effects having solid growth and Plastic Additives having particularly strong growth. Ongoing competitive price pressure in many markets resulted in an overall price decrease of 1 percent compared to 2006.

Asia Pacific continued to show strong growth, up 7 percent in local currencies over 2006, with China again delivering double-digit growth rates. In Europe, where Germany and Eastern Europe showed good growth, sales were slightly up overall in local currencies. Central and South America both continued with a good growth trend. The U.S. saw stronger sales in the second half and for the full year was on par with 2006, despite some impact by the slow automotive and construction industries. Canada remained weak. As a result, overall sales for the Americas were nearly flat in local currencies.

The currency effect for the year was 1 percent positive, with the stronger euro and British pound offsetting the weaker U.S. dollar.

GROSS PROFIT INCREASES

Gross profit increased by CHF 25 million to CHF 1 874 million representing 28.7 percent of sales led by sales volume growth and favorable currency effects. In 2006 gross profit amounted to CHF 1 849 million or 29.1 percent of sales. As in prior years, selective sales price increases could be implemented to pass along certain continuing raw material cost increases, while competitive pressure in several of the Company's markets also forced selective price concessions. Overall, sales prices declined by 1 percent. With the Lean Manufacturing initiative portion of the Operational Agenda, all major sites are implementing decisive actions to improve efficiency. Substantial savings in production costs are already coming through. However, increased raw material costs of around 3 percent to a large extent offset these cost saving benefits.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES MAINTAINED AT PRIOR YEAR LEVEL

Selling, general and administrative expenses in 2007 were CHF 987 million, CHF 1 million below prior year and improved in intensity terms from 15.6 percent of sales in 2006 to 15.1 percent of sales in 2007. The consolidation of a number of legal entities and offices as part of the geographical footprint initiative within the Operational Agenda, the new SAP system now up and running in around 80 percent of the Company and streamlined operations have contributed to this favorable result.

CONTINUED INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development expenses of CHF 262 million were CHF 8 million below prior year but still at the targeted level of 4 percent of sales.

In 2007 the concept phase of the Operational Agenda's innovation initiative was concluded. A new approach to innovation will be driven by targeted resource allocation to technology areas with the highest growth and profit potential. To ensure greater focus and efficiency, existing resources will be consolidated into dedicated cross-company research centers focusing on the Company's core technologies. In addition, pursuant to its commitment to innovation, the Company will continue to maintain a Research Fund for high risk/high reward projects, allowing up to CHF 15 million additional research and development expenses annually for such projects.

OPERATING INCOME BEFORE RESTRUCTURING UP BY 4 PERCENT

Operating income before restructuring increased by CHF 21 million from CHF 531 million in 2006 to CHF 552 million in 2007 or by 4 percent, seeing the result of the strategic repositioning of the Company and its focused portfolio. Efforts from the Operational Agenda to improve efficiency, reduce costs and manage margins more than compensated for raw material cost increases of around 3 percent and contributed to this result. In 2007 operating income margin before restructuring was 8.5 percent compared to 8.4 percent in prior year.

Including restructuring, operating income in 2007 amounts to CHF 434 million in 2007 compared to CHF 462 million in prior year.

INCOME TAXES

Income tax expense increased by CHF 45 million to CHF 84 million mainly because 2006 had benefited from the release of a tax reserve following settlement of a tax audit during that year and also due to the effect of tax rate changes enacted in 2007.

ITEMS INVOLVING SIGNIFICANT UNCERTAINTY

Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used by the Company to prepare its financial statements. Certain of these policies and methods involve the use of significant judgments, assumptions and estimates. The following describes activities during 2007 related to accounting for the significant items requiring the use of judgments, assumptions and estimates.

Asset impairment testing

In 2007, the Company performed the required testing of goodwill for impairment by determining whether the fair values of its segments are greater than their respective carrying values. The fair values of the Company's Plastic Additives and Coating Effects segments remained substantially higher than their respective carrying values. The fair value of the Company's Water & Paper Treatment Segment was estimated by the Company to be above the segment's carrying value and therefore no impairment exists.

If the future results of the Water & Paper Treatment Segment are not as currently projected, or the discount rate increases in the future, then the Segment's goodwill could become impaired. The calculation described in Note 1 to the Consolidated Financial Statements would be performed to determine the amount, if any, of impairment.

Environmental liabilities

As shown in Note 16 to the Consolidated Financial Statements, the Company's environmental liabilities decreased during 2007. This occurred mainly because of continued spending for remediation of existing sites, mostly at Toms River in the U.S. There were no new incidents or other events during 2007 that required environmental liabilities to be increased. For further information regarding environmental matters, see Note 22 to the Consolidated Financial Statements.

Pension plans

For the Company's pension plans that are funded, the overall funded status (difference between pension plan assets and plan liabilities) improved by CHF 243 million from year-end 2006 to 2007. The improvement resulted from a CHF 216 million decrease in pension plan liabilities and a CHF 27 million increase in pension plan assets. The liability decrease occurred mainly because rates used to discount pension liabilities to present value were increased, reflecting the increase during 2007 in long-term high-quality fixed income investments used as the basis for pension accounting. For further information regarding the Company's pension plans, see Note 19 to the Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

SELECTED BALANCE SHEET DATA AS OF DECEMBER 31,	2007	2006
Cash and cash equivalents and short-term investments	**666**	1 028
Total assets	**8 788**	9 081
Total shareholders' equity	**3 305**	3 214

Cash and cash equivalents and short-term investments decreased due to debt repayments, capital expenditures and dividend payments that were partially offset by higher operating cash flows and proceeds from the sale of buildings at one of the Company's sites. Total assets decreased primarily due to lower current assets. The increase in shareholders' equity resulted from net income and pension-related other comprehensive income, partially offset by dividend payments and increased treasury stock.

TREASURY MANAGEMENT

The Company's sources of liquidity continue to be funds provided by operations and from capital markets. Management expects that future funding from these sources will continue to be available to satisfy its working capital and debt service requirements for the foreseeable future.

The Company's average cost of its total borrowings increased to 4.67 percent in 2007 compared with 3.91 percent in 2006, reflecting the global rise in interest rates during the year as well as the stronger euro and British pound against the Swiss franc. As a result, interest expense increased by CHF 13 million over prior year, which was almost fully offset by higher interest income.

The Company, in accordance with its stated risk management policy, continues to monitor its currency exposures and, where appropriate, enters into transactions to minimize its overall exposures to changes in exchange rates. The Company selectively executes foreign currency transactions, when considered cost effective, to protect the cash flows of its operating companies against unfavorable foreign currency movements.

Other financial expense, net improved by CHF 38 million mostly due to improved foreign currency exchange results.

To manage debt-related exposure to fluctuations in currency exchange and interest rates, the Company entered into certain hedges. For more information regarding these hedges, see Note 10 to the Consolidated Financial Statements.

The Company maintained stable, investment-grade credit ratings during 2007. The Moody's rating is Baa2, stable outlook and the Standard & Poor's rating is BBB stable outlook. Management believes that with these ratings the Company will continue to be able to access global capital markets to meet its capital requirements as required.

NET DEBT

The table below shows the components of net debt at December 31, 2007 and 2006:

NET DEBT	2007	2006
Short-term debt	**599**	173
Long-term debt	**1 980**	2 709
Total debt	**2 579**	2 882
Cash and cash equivalents	**(665)**	(1 027)
Short-term investments	**(1)**	(1)
Net debt	**1 913**	1 854

The decrease in total debt resulted from the early repayment of GBP 172 million of debt. None of the Company's debt arrangements contain any covenants that would cause the debt to become payable prior to its scheduled maturity in the event the Company were to fail to maintain a particular credit rating or financial ratio, or to achieve any particular level of financial results. For further information regarding the Company's debt, see Notes 13 and 14 to the Consolidated Financial Statements.

CASH FLOWS OVERVIEW

CASH FLOWS FROM OPERATING ACTIVITIES

	2007	2006
Net income (loss)	**237**	(41)
(Income) loss from discontinued operations, net of tax	**(17)**	300
Depreciation and amortization	**357**	359
Net change in operating assets and liabilities	**(158)**	(207)
Other, net	**82**	59
Net cash used in discontinued operations	**(7)**	(48)
Net cash provided by operating activities	**494**	422

CASH FLOWS FROM INVESTING ACTIVITIES

	2007	2006
Capital expenditures	**(268)**	(236)
Sale (acquisition) of businesses, net of cash	**(29)**	192
Proceeds from sale of assets and changes in loans and other long-term assets	**(7)**	(107)
Discontinued operations	**–**	(8)
Net cash used in investing activities	**(304)**	(159)

CASH FLOWS FROM FINANCING ACTIVITIES

	2007	2006
Decrease in short-term and long-term debt, net	**(313)**	(339)
Dividends paid	**(201)**	(199)
Treasury stock transactions and other	**(49)**	47
Net cash used in financing activities	**(563)**	(491)

FREE CASH FLOW

	2007	2006
Net cash provided by continuing operations	**501**	470
Restructuring payments, net [i]	**74**	68
Net cash used in continuing investing activities	**(304)**	(151)
Sale/acquisition of businesses, net of cash	**29**	(192)
Free cash flow	**300**	195

[i] Net of proceeds from restructuring-related asset sales.

CASH FLOWS

Operating cash flows increased due to improved operating asset management as well as lower cash payments related to discontinued operations.

Excluding the effect of sales of businesses, which includes the 2006 sales of the Textile Effects and Masterbatch businesses, cash flows used in investing activities decreased by CHF 76 million. The decrease is mainly due to the proceeds from the sale-leaseback of buildings at one of the Company's sites, which is described in Note 22 to the Consolidated Financial Statements.

Cash flows used in financing activities were higher than prior year mainly due to treasury stock purchases.

The Company historically has utilized free cash flow to maintain short-term debt at stable levels, to repay long-term debt according to payment terms or earlier when economically advantageous to the Company, for acquisitions of businesses or treasury shares, and to pay dividends.

SEGMENT OVERVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTINUED

PLASTIC ADDITIVES

(ALL REFERENCES TO OPERATING INCOME ARE BEFORE RESTRUCTURING)

OVERVIEW

KEY HIGHLIGHTS

- 5 percent sales volume growth achieved
- Operational Agenda delivered expected cost savings
- Margins maintained despite higher raw material costs
- New Asian antioxidants plant on track for early 2008 start-up

OPERATING INCOME

	2007	2006
Operating income	**323**	312
As a percentage of sales	**14.9%**	14.9%

SALES DEVELOPMENT

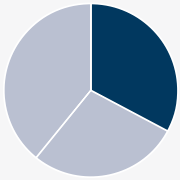
2007 COMPARED TO 2006	
Volume/product mix	**5%**
Price	**(2)%**
Currency	**0%**
Total in Swiss francs	**3%**

ASSET MANAGEMENT

	2007	2006
Net current operating assets:		
Absolute in CHF	**463**	443
As a percentage of sales	**21%**	21%
Capital expenditures in CHF	**132**	98
Invested capital in CHF	**1 363**	1 298
Total assets in CHF	**1 699**	1 613

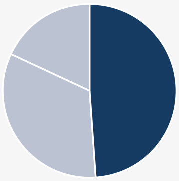
SALES

33%



OPERATING INCOME

49%



SALES DEVELOPMENT

Sales growth for the Plastic Additives Segment was fueled by overall volume growth in all but one of the Segment's business lines that more than offset sales price reductions.

Base polymers sales increased over prior year led by additional volumes sold under a long-term antioxidant sales contract entered into with a key customer in early 2007. Polymer products sales declined mainly because of the decision to discontinue sales of the low-margin Atmer product range in second quarter 2007. Process and lubricant additives experienced strong sales growth in 2007 with increased sales to global package houses and oil companies. Home and personal care sales once again experienced double-digit growth over prior year led by continued strong growth in sales of UV absorbers.

Sales in local currencies increased in all geographic areas, particularly in Asia Pacific where Region China and Singapore continued their strong sales growth trends.

OPERATING INCOME

Gross profit margin was maintained at prior year levels despite higher raw material costs. This occurred because low-margin product sales that were discontinued were replaced with sales of other products at higher margins. In addition, Operational Agenda restructuring measures resulted in reduced production costs and improved percentage capacity utilization, both of which improved margin. Selling, general and administrative expenses were higher to support the Segment's continuing growth. Investments in research and development activities were slightly lower than prior year.

ASSET MANAGEMENT

Net current operating asset intensity remained constant as higher receivables and inventories were offset by higher payables. Receivables increased due to higher sales. The increase in capital expenditures is due to the continued construction of the new antioxidant manufacturing plant in Singapore, which is nearing completion and scheduled to begin production in March 2008. The combined higher net current operating assets and capital expenditures are the principal reasons for the increases in both invested capital and total assets.

COATING EFFECTS

(ALL REFERENCES TO OPERATING INCOME ARE BEFORE RESTRUCTURING)

OVERVIEW

KEY HIGHLIGHTS

- 3 percent sales volume growth achieved despite slowdowns in key industries
- Margins impacted by higher raw material costs
- New Asian pigments and additives plant on track for mid-2008 start-up

OPERATING INCOME

	2007	2006
Operating income	**219**	244
As a percentage of sales	**11.9%**	13.6%

SALES DEVELOPMENT

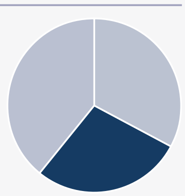
2007 COMPARED TO 2006	
Volume/product mix	**3%**
Price	**(1)%**
Currency	**0%**
Total in Swiss francs	**2%**

ASSET MANAGEMENT

	2007	2006
Net current operating assets:		
Absolute in CHF	**546**	539
As a percentage of sales	**30%**	30%
Capital expenditures in CHF	**66**	49
Invested capital in CHF	**1 570**	1 644
Total assets in CHF	**1 865**	1 900

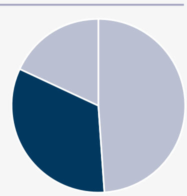
SALES

28%



OPERATING INCOME

33%



SALES DEVELOPMENT

The increase in Coating Effects Segment sales was the result of volume increases in all but one of its business lines, which more than offset the effect of slightly lower sales prices.

Strong sales growth in business line plastics came primarily from increased sales to customers in the consumer goods and fibers industries. Sales grew slightly in coatings as strong growth in industrial and decorating markets was somewhat offset by weaker sales in the transportation market. Electronic materials experienced strong sales growth in all markets except for information storage, with microelectronics being the greatest contributor in intensity and display contributing the most in absolute terms. Sales decreased in imaging and inks because of product pruning measures to eliminate low-margin sales, particularly in process colors for publication inks.

Sales in local currencies increased over prior year with strong growth in Asia Pacific more than offsetting declines in the Americas. Local currency sales were flat in Europe. The growth in Asia Pacific was led by China and Korea, each of which produced double digit sales growth. In the Americas, South America showed very strong sales growth, which partially compensated for the decline in the U.S. and Canada caused by continued slowdowns in the North American automotive and construction industries.

OPERATING INCOME

Gross profit in both absolute terms and intensity declined slightly as the effect of higher sales was offset by higher raw material costs and the unabsorbed costs from targeted temporary shutdowns of several production units in the fourth quarter. Higher selling, general and administrative expenses occurred partially due to increased provision for bad debt for a significant customer and the effect of minor acquisitions. Lower research and development costs could not offset the combined effect of the above, resulting in operating income decreasing in both absolute terms and intensity.

ASSET MANAGEMENT

Net operating assets increased due to higher inventory values, which were influenced by higher raw material costs and a build-up in advance of planned production optimization activities. This was partially offset by higher payables. Receivables increased slightly in absolute terms and remained flat in intensity. Capital expenditures increased due to construction of a new pigment and additives plant in China that is scheduled to begin production in mid-2008. An overall decrease in net fixed assets more than offset the higher net operating assets. As a result, invested capital and total assets decreased.

WATER & PAPER TREATMENT

(ALL REFERENCES TO OPERATING INCOME ARE BEFORE RESTRUCTURING)

OVERVIEW

KEY HIGHLIGHTS

- Sales growth despite elimination of low-margin sales
- Profitability improvement measures delivered steadily improving results
- Strong cost controls reduced expenses and improved margins
- Strong free cash flow growth delivered

OPERATING INCOME

	2007	2006
Operating income	**116**	81
As a percentage of sales	**4.6%**	3.3%

SALES DEVELOPMENT

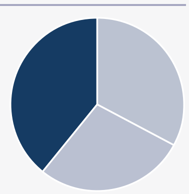
2007 COMPARED TO 2006	
Volume/product mix	**1%**
Price	**0%**
Currency	**2%**
Total in Swiss francs	**3%**

ASSET MANAGEMENT

	2007	2006
Net current operating assets:		
Absolute in CHF	**565**	590
As a percentage of sales	**22%**	24%
Capital expenditures in CHF	**63**	79
Invested capital in CHF	**3 057**	3 207
Total assets in CHF	**3 428**	3 585

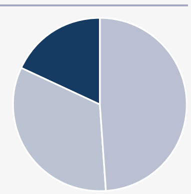
SALES

39%



OPERATING INCOME

18%



SALES DEVELOPMENT

Sales increased across all of the Water & Paper Treatment Segment's business lines in Swiss francs and, except for paper, were higher in local currencies. The strong focus on profitability improvement in paper resulted in product pruning to eliminate low margin sales. As a result, sales volumes declined in paper, but this was more than offset by higher sales volumes in water treatment and detergents & hygiene.

Sales in local currencies increased over prior year with growth in Asia Pacific and Europe more than offsetting a decline in the Americas. In Europe, sales growth was particularly strong in the U.K. In the Americas, sales in the U.S. increased, but this was more than offset by a decrease in Canada. Asia Pacific continued to experience sales growth in most areas. Favorable currency exchange rates resulted in even higher overall sales in Swiss francs versus prior year.

OPERATING INCOME

Operating income increased significantly in both absolute terms and intensity as profitability measures implemented in early 2007 produced steadily improving results throughout the second half of the year. Gross profit increased in absolute terms and remained stable in intensity. Higher raw material costs were fully recovered through sales price increases in certain products and production cost reductions. Strong cost control measures produced lower selling, general and administrative expense and investments in research and development were also decreased.

ASSET MANAGEMENT

Net operating assets were reduced from prior year levels as the combined decrease in receivables and increase in payables more than offset an increase in inventories. Capital expenditures decreased from prior year as the segment focuses more on profitability improvement and less on growth. As a result, net fixed assets decreased, which when combined with the lower net operating assets resulted in both total assets and invested capital decreasing.

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CONSOLIDATED STATEMENTS OF INCOME

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

YEAR ENDED DECEMBER 31,	NOTES	2007	2006
Net sales		**6 523**	6 352
Cost of goods sold		**(4 649)**	(4 503)
Gross profit		**1 874**	1 849
Selling, general and administrative		**(987)**	(988)
Research and development		**(262)**	(270)
Amortization of other intangible assets	9	**(73)**	(60)
Restructuring, impairment and other charges	23	**(118)**	(69)
Operating income		**434**	462
Interest expense		**(135)**	(122)
Interest income		**34**	23
Other financial expense, net		**(24)**	(62)
Income from continuing operations before income taxes and minority interest		**309**	301
Provision for income taxes	15	**(84)**	(39)
Minority interest		**(5)**	(3)
Income from continuing operations		**220**	259
Income from discontinued operations, net of tax [i]	4	**17**	53
Loss on sale of discontinued operations, net of tax [i]	4	**0**	(353)
Net income (loss)		**237**	(41)
Earnings (loss) per share, basic and diluted	20		
Continuing operations		**3.27**	3.91
Discontinued operations		**0.26**	(4.54)
Net income (loss) per share		**3.53**	(0.63)
Weighted average shares outstanding, basic and diluted (in millions)		**67.1**	66.2

[i] Includes for income from discontinued operations, net of tax: CHF 23 million tax benefit for 2007 and CHF 12 million tax benefit for 2006, and for loss on sale of discontinued operations, net of tax: CHF 88 million tax benefit for 2006.

FINANCIAL STATEMENTS

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

DECEMBER 31,	NOTES	2007	2006
Assets			
Current assets			
Cash and cash equivalents		**665**	1 027
Accounts receivable, net	5	**896**	892
Inventories	6	**1 315**	1 241
Prepaid and other current assets		**464**	394
Total current assets		**3 340**	3 554
Property, plant and equipment, net	7	**2 426**	2 576
Goodwill	8	**1 503**	1 559
Other intangible assets, net	9	**949**	910
Financial investments	10	**118**	121
Other assets	11	**452**	361
Total assets		**8 788**	9 081
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		**638**	560
Short-term debt	13	**599**	173
Income taxes payable		**26**	38
Accruals and other current liabilities	12	**709**	795
Total current liabilities		**1 972**	1 566
Long-term debt	14	**1 980**	2 709
Deferred income taxes	15	**166**	138
Other liabilities	16	**1 285**	1 379
Total liabilities		**5 403**	5 792
Minority interest		**80**	75
Shareholders' equity	17		
Common stock [(i)]		**69**	69
Additional paid-in capital		**3 939**	3 929
Retained earnings		**311**	280
Accumulated other comprehensive loss		**(840)**	(928)
Treasury stock, at cost [(ii)]		**(174)**	(136)
Total shareholders' equity		**3 305**	3 214
Total liabilities and shareholders' equity		**8 788**	9 081

[(i)] Par value CHF 1 per share, 79.1 million shares authorized and 69.1 million shares issued as of December 31, 2007 and 2006.

[(ii)] December 31, 2007: 2.1 million treasury shares; December 31, 2006: 1.6 million treasury shares.

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

YEAR ENDED DECEMBER 31,	2007	2006
Cash flows from operating activities		
Net income (loss)	**237**	(41)
(Income) loss from discontinued operations, net of tax	**(17)**	300
Income from continuing operations	**220**	259
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**357**	359
Deferred income taxes	**14**	34
Restructuring, impairment and other charges	**118**	69
Restructuring payments	**(76)**	(83)
Gain on sale/disposal of assets, net	**(15)**	(7)
Minority interest and other non-cash items, net	**41**	46
Changes in operating assets and liabilities:		
Accounts receivable, net	**(6)**	(10)
Inventories	**(91)**	(110)
Accounts payable	**90**	61
Other operating assets and liabilities	**(151)**	(148)
Net cash provided by continuing operations	**501**	470
Net cash used in discontinued operations	**(7)**	(48)
Net cash provided by operating activities	**494**	422
Cash flows from investing activities		
Capital expenditures	**(268)**	(236)
Proceeds from sale of assets	**115**	18
Sale (acquisition) of businesses, net of cash [(i)]	**(29)**	192
Loans and other long-term assets	**(122)**	(125)
Discontinued operations	**0**	(8)
Net cash used in investing activities	**(304)**	(159)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	**16**	(98)
Proceeds from long-term debt	**99**	394
Repayments of long-term debt	**(428)**	(635)
Dividends paid	**(201)**	(199)
Treasury stock transactions	**(49)**	47
Net cash used in financing activities	**(563)**	(491)
Effect of exchange rate changes on cash and cash equivalents	**11**	4
Net decrease in cash and cash equivalents	**(362)**	(224)
Cash and cash equivalents, beginning of year	**1 027**	1 251
Cash and cash equivalents, end of period	**665**	1 027
Supplemental cash flow information		
Cash paid for interest	**(157)**	(135)
Cash paid for income taxes	**(73)**	(52)

[(i)] 2007 includes disbursements totaling CHF 33 million attributable to the divestment in 2006 of the Textile Effects business. 2007 and 2006 include disbursements for acquisitions of businesses, net of cash acquired, of CHF 9 million and CHF 31 million, respectively.

See Notes to Consolidated Financial Statements

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

	NOTES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK UNRESERVED SHARES	TREASURY STOCK RESERVED SHARES	TOTAL
Balance at December 31, 2005		69	3 993	520	(409)	(95)	(175)	3 903
Net loss				(41)				(41)
Currency translation adjustments					86			86
Pension funded status adjustment, net of tax of CHF 0					19			19
Other					(1)			(1)
Comprehensive income (loss)				(41)	104			63
Cash dividends declared and paid [1]				(199)				(199)
Treasury stock transactions	17		(71)			(41)	175	63
Adjustment to initially apply SFAS No. 158, net of tax of CHF 208	19				(623)			(623)
Other			7					7
Balance at December 31, 2006		**69**	**3 929**	**280**	**(928)**	**(136)**	**0**	**3 214**
Net income				237				**237**
Currency translation adjustments					(100)			**(100)**
Pension and post-retirement plan funded status adjustment, net of tax of CHF 74					188			**188**
Comprehensive income				237	88			**325**
Cash dividends declared and paid [1]				(201)				**(201)**
Treasury stock transactions	17		6			(38)		**(32)**
Other			4	(5)				**(1)**
Balance at December 31, 2007		**69**	**3 939**	**311**	**(840)**	**(174)**	**0**	**3 305**

[1] Cash dividend declared and paid in 2007 and 2006 was CHF 3.00 per share.

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

1. Summary of significant accounting policies

COMPANY OPERATIONS

Ciba Specialty Chemicals Holding Inc. and its consolidated subsidiaries (the "Company") is a global leader in the discovery and manufacture of innovative specialty chemicals that provide color, performance and care for plastics, coatings, paper and other products. The Company's products and services are also used to provide clean water and to treat water streams in industrial and municipal applications.

BASIS OF CONSOLIDATION AND PRESENTATION

The accompanying Consolidated Financial Statements of the Company have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). The assets, liabilities and results of operations of entities in which the Company has a controlling financial interest have been consolidated. Investments in which the Company exercises significant influence (generally 20–50 percent ownership interest), but does not exercise control, are accounted for under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation.

DISCONTINUED OPERATIONS

The operating results of components of the Company that are disposed of or have been classified as held for sale and meet the criteria described in the following sentence are removed from continuing operations for all periods presented and reported as discontinued operations. The criteria for reporting discontinued operations are that the component has operations and cash flows that can be clearly distinguished from the rest of the Company, the operating results of that component's operations and cash flows have been or will be eliminated from the Company's ongoing operations, and the Company does not have significant continuing involvement in the component's operations after the disposal transaction.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from those estimates.

FOREIGN CURRENCY TRANSLATION

The Company's financial statements are prepared in millions of Swiss francs ("CHF million"). For most operations outside Switzerland, where the functional currency is the local currency, income, expense and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at period-end exchange rates. The translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity. The financial statements of subsidiaries that operate in economic environments that are highly inflationary maintain financial information for reporting purposes in U.S. dollars or Swiss francs and include gains and losses from translation in income. For foreign currency transactions, changes in exchange rates that arise between transaction, reporting and settlement dates result in both realized and unrealized exchange gains and losses. These amounts are included in net income (loss) for the period.

CASH EQUIVALENTS

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

ACCOUNTS RECEIVABLE, NET

Accounts receivable are recorded at their net realizable value after deducting an allowance for doubtful accounts. Such deductions reflect either specific cases or estimates based on historical incurred losses. This also includes an allowance for country specific transfer risks. Accounts receivable are written off when they are determined to be uncollectible.

INVENTORIES

The Company values its inventories at the lower of cost, determined principally on a first-in, first-out ("FIFO") method, or market. Costs include all costs of production, including applicable portions of plant overhead. Allowances are made for obsolete and slow-moving inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets ranging from approximately 20 to 50 years for buildings and 5 to 20 years for machinery and equipment. The Company assesses its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. In such cases, if the sum of the asset's expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the asset's carrying amount over its fair value.

Property, plant and equipment acquired through finance lease arrangements are recorded as assets at the lesser of the present value of the minimum future lease payments or their fair value at the date of acquisition and depreciated over the useful life of the asset or, if the lease does not provide for the transfer of ownership of the assets to the Company, the lease term if it is shorter than the useful life of the asset. The corresponding obligation is recorded as a liability in the Consolidated Balance Sheets.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill acquired in business combinations is capitalized at acquisition cost and annually evaluated at the reporting unit level for impairment using a two-step impairment test. In the first step, the book value of the reporting unit's assets, including goodwill

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

and other intangibles, and liabilities ("net assets") is compared to the fair value of the reporting unit. If the fair value of the reporting unit exceeds the book value of its net assets, goodwill is deemed not impaired and the second step is not required. If, however, the fair value of the reporting unit is less than the book value of its net assets, the second step is required to measure the amount of impairment loss, if any.

In the second step, the current fair value of the reporting unit is allocated to all of its tangible assets, other intangible assets (including unrecognized intangible assets but excluding goodwill) and liabilities ("assets and liabilities"). This fair value allocation to the assets and liabilities is made as if the reporting unit had been acquired as of the impairment testing date in a business combination and the fair value of the reporting unit was the price that would have been paid to acquire the reporting unit. The excess, if any, of the total current fair value of the reporting unit over the sum of the individual fair values assigned to its assets and liabilities is considered to be the current implied goodwill value of the reporting unit. If the book value of the reporting unit's goodwill exceeds this implied goodwill value, that excess is an impairment loss, which is recorded as a component of operating income in the Consolidated Statements of Income. If the book value of the reporting unit's goodwill is less than the implied goodwill value, goodwill is not impaired.

During 2007 and 2006, the Company completed the annual impairment test of goodwill and determined that its goodwill is not impaired.

Other intangible assets

Purchased identifiable intangible assets ("other intangible assets") are capitalized at acquisition cost. Other intangible assets with finite lives are amortized on a straight-line basis over the estimated periods that such assets are expected to contribute to the cash flows of the Company (5 to 35 years). Other intangible assets with indefinite lives are not amortized.

The Company assesses other intangible assets with finite lives for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. For such assets that are tested for impairment, if the sum of the asset's expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the asset's carrying amount over its fair value.

Other intangible assets with indefinite lives are reviewed annually for impairment, or on an interim basis if indications of possible impairment are present. For such assets, if the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that difference. Intangible assets with indefinite lives are reviewed annually to determine whether their useful lives remain indefinite. If such an asset is then determined to have a finite life, the asset is tested for impairment. The carrying amount of the intangible asset after recognition of an impairment charge, if any, is then amortized over the asset's remaining useful life and further accounted for in the same manner as other intangible assets with finite lives.

FINANCIAL INVESTMENTS

Financial investments comprise primarily investments in equity affiliates that are not controlled by the Company, but in which the Company maintains a significant equity ownership or other interest, and investments in unconsolidated companies (less than 20 percent ownership and not otherwise controlled by the Company).

Investments in equity affiliates are accounted for using the equity method under which the Company originally records these at cost and subsequently adjusts the carrying amount to reflect its share of earnings less any dividends received.

Investments in unconsolidated companies are designated as available-for-sale securities and, where quoted market prices are available, are recorded at fair value. Unrealized gains and losses on these securities, net of tax, are included as a component of shareholders' equity in accumulated other comprehensive income (loss). Where quoted market prices do not exist and where it is not cost beneficial to estimate fair value, such investments are accounted for at cost. For financial investments where the Company deems a loss in value to be other than temporary, such loss is recorded in the Consolidated Statements of Income.

DERIVATIVE FINANCIAL INSTRUMENTS

For derivative financial instruments designated and that qualify as fair value hedges, changes in the fair values of the derivative financial instrument and the hedged item are recognized currently in earnings. The changes in fair value of the hedged item are recorded as adjustments to its carrying amount on the balance sheet. If the derivative financial instrument in a subsequent period is no longer designated or no longer qualifies as a fair value hedge, then the changes in fair value of the hedged item are not recognized in income. The previous changes in fair value that had been recorded as adjustments to the carrying amount of the hedged item are generally amortized to earnings as the hedged item affects earnings.

For derivative financial instruments designated and that qualify as cash flow hedges, changes in the effective portion of the derivative financial instrument's fair value are recorded in accumulated other comprehensive income in the balance sheet until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instrument is immediately recognized in the income statement as a component of financial income/expense. If the hedged item is a forecasted transaction that later is not expected to or will not occur, then the derivative financial instrument no longer qualifies as a cash flow hedge. As a result, fair value changes that were previously recorded in accumulated other comprehensive income are immediately recognized in earnings as a component of financial income/expense. In all other instances, when a derivative financial instrument ceases to be designated or to qualify as a cash flow hedge, the previously recorded changes in fair value remain in accumulated other comprehensive income until the hedged item affects earnings.

For derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized currently in income as a component of other financial expense, net.

REVENUE RECOGNITION

Revenue is recognized upon shipment of goods to customers. Provisions for discounts and rebates to customers, product returns and other adjustments are provided for in the same period the related sales are recorded. Revenue excludes sales, use, and value added taxes collected from customers for payment to governmental authorities.

INCOME TAXES

The provision for income taxes has been determined using the asset and liability approach and consists of income taxes currently paid or payable to taxing authorities in the jurisdictions in which the Company operates plus the change in deferred taxes for the current year. Provision is made for uncertain positions taken by the Company in its tax returns when they more likely than not would be overturned upon examination by tax authorities. These provisions include any interest or penalties that would become payable upon settlement of the uncertain positions.

Deferred taxes represent the estimated future tax consequences of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a future tax benefit will not be realized.

Provision has also been made for taxes that would be levied upon the remittance to the parent company of currently unremitted earnings of foreign operations. However, no such provision is made for unremitted earnings of foreign operations that are intended to be reinvested indefinitely or that can be remitted substantially free of tax. The provision for income taxes also includes income taxes from earnings of equity affiliates.

ENVIRONMENTAL COMPLIANCE AND EXPENDITURES

The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each individual site and considers factors such as existing technology and technology that is expected to be approved to remediate the site, presently enacted laws and regulations and prior experience in remediation of contaminated sites.

Environmental operations and maintenance as well as remediation costs are accrued when environmental assessments and the need for remediation are probable and the costs can be reasonably estimated. The estimated liability is not discounted. Actual costs to be incurred at identified sites in future periods may vary from the estimates given the inherent uncertainties in evaluating environmental exposures.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is similar to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities, such as stock options, were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Company.

RESTRUCTURING

Costs associated with exit or disposal activities that do not involve discontinued operations are included in restructuring, impairment and other charges in the Company's Consolidated Statements of Income. Liabilities for costs associated with exit or disposal activities are initially recognized and measured at fair value in the period in which the liability is incurred. Liabilities for one-time termination benefits provided to employees that are involuntarily terminated are recognized and measured at their fair value at the communication date unless the employees are required to render service beyond a minimum retention period in order to receive the termination benefits. If employees are required to render service beyond a minimum retention period, liabilities for the termination benefits are measured initially at the communication date based on the fair value of the liabilities as of the termination date and recognized ratably over the future service period.

Liabilities for costs to terminate contracts before the end of their term are recognized and measured at their fair value when the contracts are terminated. Liabilities for costs that continue to be incurred under contracts for their remaining term without economic benefit to the Company are recognized and measured at their fair value when the Company ceases using the rights conveyed by the contracts. Liabilities for other costs associated with exit or disposal activities are recognized and measured at their fair value in the periods in which the liabilities are incurred.

NEW ACCOUNTING STANDARDS

Pensions and other postretirement benefits

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) ("SFAS No. 158"), which requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. The Company fully adopted the "disclosure and recognition" provisions of SFAS No. 158 on December 31, 2006. The "measurement" provisions of SFAS No. 158 are not applicable until the year ending December 31, 2008. See Note 19 for further discussion regarding the changes and related balance sheet impact that resulted from the adoption of SFAS No. 158.

Other

There were no other new accounting standards issued by the FASB or other authoritative standard setters that became effective during 2007 and that had a material effect on the Company's financial statements.

RECLASSIFICATIONS

Certain reclassifications to the 2006 financial statements and related footnote amounts have been made to conform to the 2007 presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

2. Business segment and geographic data

YEAR ENDED DECEMBER 31,	2007	2006
Net sales		
Plastic Additives	**2 161**	2 090
Coating Effects	**1 837**	1 801
Water & Paper Treatment	**2 525**	2 461
Total net sales	**6 523**	6 352
Operating income before restructuring, impairment and other charges		
Plastic Additives	**323**	312
Coating Effects	**219**	244
Water & Paper Treatment	**116**	81
Corporate and other expenses	**(106)**	(106)
Total operating income before restructuring, impairment and other charges	**552**	531
Operating income margin before restructuring, impairment and other charges		
Plastic Additives	**14.9%**	14.9%
Coating Effects	**11.9%**	13.6%
Water & Paper Treatment	**4.6%**	3.3%
Operating income margin before restructuring, impairment and other charges	**8.5%**	8.4%
Restructuring, impairment and other charges (i)		
Plastic Additives	**17**	–
Coating Effects	**24**	–
Water & Paper Treatment	**26**	–
Corporate	**51**	69
Total restructuring, impairment and other charges	**118**	69
Depreciation and amortization		
Plastic Additives	**96**	98
Coating Effects	**110**	105
Water & Paper Treatment	**148**	150
Corporate	**3**	6
Total depreciation and amortization	**357**	359
Operating income		
Plastic Additives	**306**	312
Coating Effects	**195**	244
Water & Paper Treatment	**90**	81
Corporate and other expenses	**(157)**	(175)
Total operating income	**434**	462
Operating income margin		
Plastic Additives	**14.2%**	14.9%
Coating Effects	**10.6%**	13.6%
Water & Paper Treatment	**3.6%**	3.3%
Operating income margin	**6.7%**	7.3%

(i) Restructuring, impairment and other charges that are not allocated to the segments because they apply principally to the Company as a whole are included in Corporate.

YEAR ENDED DECEMBER 31,	2007	2006
Research and development		
Plastic Additives	**96**	97
Coating Effects	**100**	105
Water & Paper Treatment	**41**	45
Corporate	**25**	23
Total research and development	**262**	270
Capital expenditures		
Plastic Additives	**132**	98
Coating Effects	**66**	49
Water & Paper Treatment	**63**	79
Corporate	**7**	10
Total capital expenditures	**268**	236

DECEMBER 31,	2007	2006
Total assets		
Plastic Additives	**1 699**	1 613
Coating Effects	**1 865**	1 900
Water & Paper Treatment	**3 428**	3 585
Shared operating assets not allocated to segments (ii)	**553**	438
Non-operating assets (iii)	**1 243**	1 545
Total assets	**8 788**	9 081
Net assets		
Plastic Additives	**1 363**	1 298
Coating Effects	**1 570**	1 644
Water & Paper Treatment	**3 057**	3 207
Shared operating net assets not allocated to segments (ii)	**305**	160
Non-operating net assets (iii)	**912**	1 091
Invested capital (iv)	**7 207**	7 400
Items not included in invested capital	**(3 902)**	(4 186)
Total shareholders' equity (total net assets)	**3 305**	3 214
Components of items not included in invested capital		
Net deferred tax liabilities	**42**	150
Short-term debt	**(599)**	(173)
Long-term debt	**(1 980)**	(2 709)
Other liabilities	**(1 285)**	(1 379)
Minority interest	**(80)**	(75)
Total items not included in invested capital	**(3 902)**	(4 186)

(ii) Shared operating net assets not allocated to segments and shared operating assets not allocated to segments include certain net assets and shared assets of Group Service Units and Headquarters. Group Service Units provide services to the segments.

(iii) Non-operating net assets and non-operating assets include primarily cash and cash equivalents and certain financial investments. Also included in non-operating net assets are certain Group Service Units' current liabilities.

(iv) Invested capital equals total assets less non-interest bearing current liabilities (i.e., accounts payable, income taxes payable as well as accruals and other current liabilities, except the current portion of deferred tax liabilities) and less deferred tax assets.

The Company is organized into three reporting segments: Plastic Additives, Coating Effects and Water & Paper Treatment. The Company's reporting segments each develop, manufacture and market different products, services and solutions. Each reporting segment is managed separately because each segment has different customer markets and requires different technology and marketing strategies. The same accounting policies are consistently applied to reportable segments across the Company and all segments generate revenue in the same manner. Reported sales reflect only sales to third parties. Intersegment sales are not material.

The Company evaluates the performance of its reportable segments based on operating income. Segment operating income includes all operating items relating to the segments and excludes certain restructuring and other charges that principally apply to the Company as a whole.

Invested capital is a non-United States Generally Accepted Accounting Principles ("U.S. GAAP") supplementary financial indicator. As with any supplementary financial indicator this supplementary financial indicator should be considered in addition to, not as a substitute for, operating income, net income, cash flow from operating activities, total assets, operating income margin and other measures of financial performance and liquidity reported in accordance with U.S. GAAP. The Company derives invested capital from financial measures prepared in accordance with U.S. GAAP.

DESCRIPTION OF SEGMENTS

The segment Plastic Additives develops, manufactures and markets products and provides services to the plastic, lubricant and home and personal care industries. The Segment's products are additives, which are ingredients added in small quantities to polymers and other substrates that prevent degradation, wear and corrosion and help improve appearance, durability and performance of finished plastic goods, high-performance motor oils, industrial lubricants and home and personal care products. The Segment's service business provides customers with product application solutions.

The segment Coating Effects is a leading global manufacturer of organic pigments and functional dyes as well as the leading supplier of photoinitiators and light stabilizers to the coatings, graphic arts and electronic industries. The Segment develops, manufactures and markets additives, pigments, effect pigments, pigment preparations and functional dyes, for the coatings, printing, imaging, electronic, information storage, plastics and fibers industries. The Segment also provides expert color services. The end-user markets for its products and services are, among others, the automotive, packaging, publication, electronics, information storage, construction, photographic and digital printing industries.

The segment Water & Paper Treatment serves the paper & board, water treatment and detergents & hygiene industries. The Segment provides tailored grade solutions to increase paper mill productivity and improve quality, functionality and performance of paper and board. The Segment also offers products and services used to treat the water streams in industrial and municipal applications and to improve the efficiency of mineral and oil processing as well as soil additives and specialty monomers. Furthermore, the Segment provides whiteners and antimicrobials for detergents and hygiene effects for a variety of personal care products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

NET SALES TO CUSTOMERS	2007	2006
Europe		
Germany	**597**	554
United Kingdom	**265**	256
Italy	**281**	276
France	**361**	343
Rest of European Union [i]	**1 220**	1 193
Switzerland	**87**	74
Rest of Europe	**148**	133
Total Europe	**2 959**	2 829
Americas		
United States of America	**1 159**	1 211
Canada	**195**	217
Central America	**118**	120
South America	**302**	284
Total Americas	**1 774**	1 832
Asia Pacific		
Japan	**396**	404
China Region	**441**	407
Rest of Asia	**602**	560
Australia and New Zealand	**136**	134
Africa and Middle East	**215**	186
Total Asia Pacific	**1 790**	1 691
Total net sales to customers	**6 523**	6 352

Net sales to customers are based on the final destination of the sale.

LONG-LIVED ASSETS	2007	2006
Europe		
Germany	**276**	286
United Kingdom	**338**	407
Italy	**177**	176
France	**102**	99
Rest of European Union [i]	**203**	214
Switzerland	**351**	412
Rest of Europe	**0**	0
Total Europe	**1 447**	1 594
Americas		
United States of America	**515**	576
Canada	**5**	5
Central America	**57**	65
South America	**20**	26
Total Americas	**597**	672
Asia Pacific		
Japan	**19**	20
China Region	**161**	146
Rest of Asia	**194**	135
Australia and New Zealand	**8**	9
Africa and Middle East	**0**	0
Total Asia Pacific	**382**	310
Total long-lived assets	**2 426**	2 576

Long-lived assets represent property, plant and equipment, net and are shown by the location of the assets.

[i] Rest of European Union includes all other European Union member countries that are not specifically listed. Amounts for 2006 have been adjusted to include the same member countries.

3. Exchange rates of principal currencies

			Statement of income average rates		Balance sheet year-end rates	
			2007	2006	**2007**	2006
1	U.S. dollar	(USD)	**1.20**	1.25	**1.14**	1.21
1	British pound	(GBP)	**2.40**	2.31	**2.25**	2.38
1	Euro	(EUR)	**1.64**	1.57	**1.66**	1.60
100	Japanese yen	(JPY)	**1.02**	1.08	**1.02**	1.03

4. Acquisitions and discontinued operations

ACQUISITIONS

There were no significant acquisitions during 2007 or 2006.

DISCONTINUED OPERATIONS

Income (loss) from discontinued operations, net of tax, and loss on sale of discontinued operations, net of tax, include the following:

Divestment of Textile Effects business

On June 30, 2006 the Company sold its Textile Effects business, which represented substantially all of the Textile Effects Segment, to Huntsman Corporation. Customary post-closing working capital and other adjustments related to the sale were finalized during 2007 resulting in CHF 6 million of net costs being reported in discontinued operations during this year. The results of operations of the Textile Effects business during 2006 prior to its sale to Huntsman, as well as the loss on sale, have been reported as discontinued operations in the Consolidated Financial Statements.

The segment Textile Effects served the textile industry, offering dyes and chemicals, services and integrated solutions to customers along the whole textile value chain. The Segment's products included dyes and chemicals for dyeing and printing of almost all textile fibers, optical brighteners and textile finishing products for protection and easy-care. Services offered by the Segment included color matching via the Internet and technical consultancy regarding textile color and effects management for international brand houses and retailers.

During 2006, the Company incurred CHF 14 million of restructuring charges related to the Textile Effects business in order to meet the divestment requirements agreed with the purchaser. The costs incurred were CHF 3 million for severance costs in connection with the reduction of approximately 57 positions and CHF 11 million for impairment costs. No such restructuring charges were incurred by the Company in 2007 and its restructuring-related divestment requirements have been completed.

The following table shows summarized financial information of the discontinued Textile Effects business for the six months ended June 30, 2006:

Net sales	665
Income before income taxes and minority interest	39
Provision for income taxes	(10)
Minority interest	1
Income from discontinued operations of Textile Effects business, net of tax	30

Other

During 2006, the Company disposed of its Masterbatch business in separate transactions. Each transaction qualified for treatment as discontinued operations. As a result, the results of operations of the Masterbatch business during 2006 prior to its sale have been reported as discontinued operations in the Consolidated Financial Statements. Summarized financial information of the discontinued Masterbatch business during this period is not presented because it is not significant to the Consolidated Financial Statements.

In connection with the Company's divestment of the Performance Polymers business in 2000, reserves had been established for certain tax risks related to the divested business. As a result of the settlement of certain tax audits and the passage of time, it has become more likely than not that certain of these reserves will not be needed. As a result, the Company released in 2007, CHF 32 million of such reserves and recognized tax expense in another jurisdiction of CHF 5 million related to the release. The Company also incurred in 2006, CHF 2 million of other costs attributable to the earlier divested Performance Polymers business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

5. Accounts receivable

	2007	2006
Accounts receivable	**928**	923
Allowance for doubtful accounts	**(32)**	(31)
Total	**896**	892

6. Inventories

	2007	2006
Raw materials	**176**	159
Work in process and finished goods	**1 139**	1 082
Total	**1 315**	1 241

Work in process and finished goods are shown after deducting allowances for obsolete, slow-moving and lower of cost or market adjustments of CHF 38 million as of December 31, 2007 and CHF 36 million as of December 31, 2006.

7. Property, plant and equipment

Changes in the components of property, plant and equipment and accumulated depreciation for the years ended December 31, 2007 and 2006 were as follows:

	2007					2006
	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL	TOTAL
Cost at January 1,	**115**	**1 658**	**4 880**	**181**	**6 834**	6 792
Additions	0	2	17	249	**268**	236
Retirements/disposals	(3)	(125)	(52)	0	**(180)**	(65)
Currency adjustments	(1)	(21)	(55)	(2)	**(79)**	(100)
Other [i]	(1)	(28)	77	(150)	**(102)**	(29)
Cost at December 31,	**110**	**1 486**	**4 867**	**278**	**6 741**	6 834
Accumulated depreciation at January 1,	–	**(859)**	**(3 399)**	–	**(4 258)**	(4 099)
Depreciation	–	(47)	(237)	–	**(284)**	(299)
Accumulated depreciation on retirements/disposals	–	70	45	–	**115**	55
Currency adjustments	–	7	40	–	**47**	65
Other [i]	–	20	45	–	**65**	20
Accumulated depreciation at December 31,	–	**(809)**	**(3 506)**	–	**(4 315)**	(4 258)
Net book value at December 31,	**110**	**677**	**1 361**	**278**	**2 426**	2 576

[i] In 2007, the net changes in other for buildings and machinery and equipment consist of capitalization of construction projects that were completed during the year, the aggregate amount which is reflected in other for construction in progress, offset by restructuring-related impairments and certain transfers between asset categories (See Note 23).

The insurance value of the property, plant and equipment was approximately CHF 9 532 million at December 31, 2007 and CHF 9 429 million at December 31, 2006.

8. Goodwill

Changes in the carrying amount of goodwill by Segment for the years ended December 31, 2007 and 2006 were as follows:

	DECEMBER 31, 2006	ACQUISITIONS	DISPOSALS	FOREIGN CURRENCY TRANSLATION AND OTHER ADJUSTMENTS	DECEMBER 31, 2007
Plastic Additives	77	0	0	(4)	**73**
Coating Effects	230	2	0	(2)	**230**
Water & Paper Treatment	1 252	0	(7)	(45)	**1 200**
Total	**1 559**	**2**	**(7)**	**(51)**	**1 503**

	DECEMBER 31, 2005	ACQUISITIONS	DISPOSALS	FOREIGN CURRENCY TRANSLATION AND OTHER ADJUSTMENTS	DECEMBER 31, 2006
Plastic Additives	67	14	0	(4)	77
Coating Effects	218	3	0	9	230
Water & Paper Treatment	1 207	4	0	41	1 252
Total	1 492	21	0	46	1 559

9. Other intangible assets

Other intangible assets by major class consist of the following:

DECEMBER 31, 2007	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET CARRYING VALUE
Developed technology and know-how	983	(259)	**724**
Patents	90	(44)	**46**
Trademarks and tradenames	38	(7)	**31**
Other	218	(70)	**148**
Total	**1 329**	**(380)**	**949**

DECEMBER 31, 2006			
Developed technology and know-how	911	(228)	683
Patents	88	(34)	54
Trademarks and tradenames	25	(4)	21
Other	202	(50)	152
Total	1 226	(316)	910

During 2007, the Company acquired CHF 127 million of other intangible assets, the substantial majority of which is developed technology and know-how related to the implementation of a single platform of information technology systems featuring new software designed to eliminate redundancy and enhance data transparency. This is being amortized over a twelve year period.

Amortization of other intangible assets in 2007 amounted to CHF 73 million (2006: CHF 60 million). For amortizing other intangible assets, based on the values at December 31, 2007, estimated future annual amortization expense is expected to be as follows: 2008: CHF 84 million; 2009: CHF 77 million; 2010: CHF 72 million; 2011: CHF 63 million; 2012: CHF 58 million; 2013 and thereafter: CHF 587 million.

10. Financial investments and instruments

FAIR VALUE OF FINANCIAL INVESTMENTS AND INSTRUMENTS

The Company determines that, due to their short-term nature, financial assets and liabilities such as cash equivalents, accounts receivable, accounts payable and short-term debt, have book values approximating their fair values.

The book value and fair value of the Company's long-term debt is as follows:

	2007		2006	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Long-term debt, including current portion	**2 395**	**2 304**	2 713	2 705

The fair value of publicly traded long-term debt is estimated using quoted market prices. The fair value of other long-term debt is estimated by discounting future cash flows using interest rates currently available for similar debt with similar terms, credit ratings and remaining maturities.

The fair value of financial investments for which quoted market prices are available are based on such market prices. Financial investments for which quoted market prices do not exist and where it is not practical to estimate fair value are reflected at their book value. Quoted market prices are not available for investments in equity affiliates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

FINANCIAL INVESTMENTS

	2007	2006
Investments in equity affiliates	**106**	110
Investments in unconsolidated companies	**12**	11
Total financial investments	**118**	121

The most significant investment in equity affiliates is Compagnie Industrielle de Monthey SA (investment interest maintained at 50 percent for 2007 and 2006).

The following table presents as of December 31, 2007 and 2006, summarized financial information on a 100 percent basis for investments in companies accounted for using the equity method.

	2007	2006
Sales	**92**	87
Income (loss) before taxes	**1**	(11)
Net income (loss)	**0**	(11)
Total assets	**91**	96
Shareholders' equity	**199**	206

DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative financial instruments in the ordinary course of business to mitigate its exposure to adverse changes in foreign exchange rates and to manage its interest rate exposures. Various risk exposures, arising from existing assets and liabilities, from future transactions in which the Company is firmly committed and from future anticipated transactions, are assessed and managed centrally by the Company's treasury function based on the Company's aggregate exposure. Under the Company's written hedging policy, treasury management continuously monitors and reports the results of its risk management programs to senior management and may choose to partially or fully hedge exposures. The Company's risk management policies do not permit the utilization of financial instruments for speculative or trading purposes.

The Company has procedures to monitor the credit exposure amounts and manages exposure to counter-party credit risk through specific minimum credit standards and diversification of counter-parties. The counter-parties to financial instruments generally are financial institutions with a minimum "A" credit rating or its equivalent and with significant experience with such instruments.

FOREIGN CURRENCY RISK MANAGEMENT

A substantial portion of the Company's cash flows is denominated in foreign currencies. The Company collects global expected cash flow information on a monthly basis and, based on these cash flows, prepares a consolidated exposure forecast by currency and determines to what extent these consolidated currency exposures will be hedged. To hedge the balance sheet and income exposure associated with diminution in value of foreign currency cash flows (principally U.S. dollars, euro, British pounds and Japanese yen), the Company primarily utilizes foreign currency forwards and swaps as well as options, which generally expire within twelve months. In order to lower the overall hedging costs, the Company may issue derivatives on existing or future positions.

Generally, the Company does not designate foreign exchange contracts as accounting hedges. For specific anticipated transactions, the Company may designate the foreign exchange contract as a cash flow hedge. For specific firm purchase or sale commitments or for recognized foreign currency denominated assets and liabilities, the Company may designate the foreign exchange contract as a fair value hedge.

INTEREST RATE RISK MANAGEMENT

The Company is exposed to market risks due to fluctuating interest rates primarily through its borrowing activities and to a lesser extent through its investments. The Company issues debt using the most efficient capital markets and products to fund its working capital and investment needs, which can result in a currency or interest rate mismatch with the underlying assets. Some short-term borrowings are in foreign currencies and mostly floating interest rate instruments, whereas the majority of long-term borrowings are in fixed interest rate instruments. The Company manages its ratio of fixed to floating interest rate with financial instruments and the objective of achieving a mix that is appropriate both in terms of risk and cost. To manage this mix effectively, the Company selectively enters into interest rate swaps and forward rate agreements, in which it agrees to exchange various combinations of fixed and variable interest rates based on agreed-upon nominal amounts.

Interest rate swaps that qualify and are designated as a hedge against the change in the fair value of the Company's fixed-rate debt obligations are recorded as fair value hedges. Interest rate swaps and forward rate agreements that qualify and are designated as a hedge against the variability of cash flows associated with Company's variable-rate long-term debt are recorded as cash flow hedges.

INFORMATION WITH RESPECT TO FAIR VALUE HEDGES

In 2007, the Company entered into interest rate swaps that are designated as fair value hedges of EUR 300 million of its 4.875 percent fixed interest rate unsecured notes due 2018. In 2007, there was no hedge ineffectiveness for these fair value hedges. In 2006, the Company had no fair value hedges.

INFORMATION WITH RESPECT TO CASH FLOW HEDGES

In 2007 and 2006, the Company entered into cross currency swaps with third-party financial institutions that are designated as cash flow hedges to effectively fix in Swiss francs the future cash flows for both interest and principal payments on underlying EUR 25 million and EUR 100 million, respectively, of debt. Both the underlying debt and the swaps mature in 2012. There was no hedge ineffectiveness for these cash flow hedges.

The Company has historically entered into natural gas forward contracts that were designated as cash flow hedges to minimize its exposure to increases in natural gas prices in certain locations. As of December 31, 2007 and 2006, no such contracts exist that are designated as cash flow hedges. During 2006, the Company realized CHF 5 million of losses on contracts that had been designated as cash flow hedges.

INFORMATION WITH RESPECT TO OTHER DERIVATIVE FINANCIAL INSTRUMENTS

At December 31, 2007, the fair value of other derivative instruments not designated as accounting hedges was a net asset of CHF 22 million (2006: net asset of CHF 8 million), consisting of CHF 38 million included in prepaid and other current assets (2006: CHF 11 million) and CHF 16 million included in accruals and other current liabilities (2006: CHF 3 million).

11. Other assets

	2007	2006
Prepaid pension costs	**217**	63
Deferred taxes	**163**	219
Other	**72**	79
Total	**452**	361

12. Accruals and other current liabilities

	2007	2006
Payroll and employee benefits	**133**	158
Taxes other than income taxes	**46**	43
Interest	**49**	70
Rebates	**40**	38
Restructuring provisions	**42**	32
Environmental remediation and compliance	**49**	49
Retirement and postemployment benefits	**35**	35
Deferred income taxes	**68**	63
Other	**247**	307
Total	**709**	795

13. Short-term debt

	2007	2006
Bank overdrafts	**5**	18
Loans	**75**	46
Other (i)	**104**	105
Current portion of long-term debt (ii)	**415**	4
Total	**599**	173

(i) Other includes employee and retiree deposits totaling CHF 100 million at December 31, 2007 and CHF 103 million at December 31, 2006.

(ii) The amount of long-term debt due to be repaid within the next year.

The Company maintains a multicurrency revolving loan facility expiring 2012 that provides for borrowings in U.S. dollars up to CHF 200 million equivalent and aggregate borrowings in multiple currencies up to CHF 500 million. A commitment fee of 30 percent of the applicable margin per annum, at 0.057 percent, is paid on the unused portion of the facility. The loans bear interest at a rate of LIBOR plus 19 basis points. As of December 31, 2007 and 2006, there were no borrowings outstanding under these facilities.

The weighted average interest rate for short-term debt (excluding the current portion of long-term debt) calculated at December 31, 2007 was 4.0 percent and at December 31, 2006 was 3.0 percent. Unused short-term credit lines totaled CHF 613 million at December 31, 2007.

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14. Long-term debt

LONG-TERM DEBT	2007	2006
Bonds and Euro Medium-Term Notes	**2 083**	2 485
Amounts owed to credit institutions	**232**	186
Other long-term debt	**80**	42
Total	**2 395**	2 713
Current portion of long-term debt	**(415)**	(4)
Total long-term debt	**1 980**	2 709

BONDS AND EURO MEDIUM-TERM NOTES			2007	2006
CHF	400	3.25% Straight Bonds, principal due 2008	**401**	408
EUR	500	4.875% Unsecured Notes, principal due 2018	**838**	806
CHF	300	3.25% Straight Bonds, principal due 2009	**301**	301
CHF	225	3.25% Straight Bonds, principal due 2012	**224**	224
USD	142	U.S. pollution control and industrial development bonds, principal due between 2008 and 2028 (weighted average interest rate of 4.53%)	**162**	173
Total bonds			**1 926**	1 912
GBP	71	6.50% Euro Medium-Term Note, principal due 2013	**157**	573
Total bonds and Euro Medium-Term Notes			**2 083**	2 485

In October 2007, the Company repurchased prior to their scheduled maturity date GBP 172 million of the GBP 243 million of previously outstanding 6.50 percent Euro Medium-Term Notes.

The annual maturities of long-term debt outstanding at December 31, 2007 are as follows: 2008: CHF 415 million; 2009: CHF 359 million; 2010: CHF 4 million; 2011: CHF 4 million; 2012: CHF 435 million; 2013 and thereafter: CHF 1 169 million.

15. Income taxes

The provision for income taxes in 2007 and 2006 from continuing operations consists of the following:

	2007	2006
Current portion	**70**	3
Deferred portion	**14**	36
Total provision for income taxes	**84**	39

The Company's current income taxes for 2007 were reduced by approximately CHF 37 million (2006: CHF 3 million) resulting from the utilization in certain countries of prior years' tax loss carryforwards to reduce current year taxes payable.

The Company is incorporated in Switzerland, but operates in numerous countries with differing tax laws and rates. Consequently, substantial portions of the Company's income from continuing operations before income taxes and related provision for income taxes are generated outside of Switzerland. The Company's expected tax rate consists of the weighted average rate applicable in the countries in which the Company operates. The main factors causing the effective tax rate to differ from the expected tax rate are:

IN PERCENT	2007	2006
Expected tax rate	**30**	30
Non-deductible items	**9**	12
Tax free income	**(9)**	(11)
Income taxed at reduced rates	**(6)**	(5)
Changes in valuation allowance	**1**	18
Other	**2**	(31)
Effective tax rate	**27**	13

"Non-deductible items" include the tax effect of amortization of other intangible assets and other expenses that are not deductible for tax purposes.

"Income taxed at reduced rates" includes the tax effect of certain subsidiaries of the Company that operate in countries having lower tax rates.

"Changes in valuation allowance" reflect increases in valuation allowances for deferred tax assets, primarily loss carryforwards in certain tax jurisdictions, the future realization of which is uncertain and decreases resulting from the release of previously established valuation allowances when realization of the related deferred tax assets occur or become likely to occur in the future.

The net increase in 2007 includes 4 percent for additional valuation allowances on deferred tax assets that arose during 2007 in certain subsidiaries and (2) percent for changes in judgment during 2007 regarding the amount of valuation allowances necessary for deferred tax assets that existed in prior year.

The net increase in 2006 includes 27 percent for additional valuation allowances on tax loss carryforwards that arose during 2006 in certain subsidiaries, (4) percent for deferred tax assets that reversed in 2006 and had previously existing valuation allowances, and (5) percent for changes in judgment during 2006 regarding the amount of valuation allowance necessary for deferred tax assets that existed in prior years.

In 2007, "Other" includes 5 percent for the effect of alternative taxes in certain countries that partially substitute for income taxes, 3 percent for the effect of tax rate changes in certain countries that decreased net deferred tax assets and consequently increased income tax expense and (6) percent for other adjustments including the effect of actual tax rates in certain countries being different than the expected tax rate.

In 2006, "Other" includes (13) percent for the release of previously existing tax risk provisions upon the determination that they are no longer necessary. The decisions to release these provisions were based on events that occurred in 2006 such as settlements of tax audits or the expiration of the statute of limitation for previously open tax years with risks for which provisions had been recorded. In addition, 2006 "Other" includes 6 percent for the effect of alternative taxes in certain countries that partially substitute for income taxes, (16) percent for the effect of actual tax rates in certain countries being different than the expected tax rate and (8) percent for other adjustments.

The significant components of activities that gave rise to deferred tax assets and liabilities on the balance sheet at December 31, 2007 and 2006, were as follows:

	2007	2006
Deferred tax assets		
Pensions and other employee compensation	**98**	145
Inventory	**25**	27
Restructuring, impairment and other charges	**3**	2
Environmental reserves	**103**	120
Tax loss carryforwards	**310**	373
Other	**69**	92
Gross deferred tax assets	**608**	759
Valuation allowances	**(264)**	(342)
Net deferred tax assets	**344**	417
Deferred tax liabilities		
Property, plant and equipment	**(166)**	(209)
Other	**(136)**	(58)
Gross deferred tax liabilities	**(302)**	(267)
Net deferred tax assets	**42**	150
Included in		
Prepaid and other current assets	**113**	132
Other assets	**163**	219
Accruals and other current liabilities	**(68)**	(63)
Deferred income taxes	**(166)**	(138)
Net deferred tax assets	**42**	150

In management's opinion, the majority of deferred tax assets other than certain tax loss carryforwards will be realized because of the depletion of certain significant tax deductions and anticipated future taxable income resulting from the Company's operations. Valuation allowances have been established for certain tax loss carryforwards and certain long-term deferred tax assets of the Company.

For tax return purposes, the Company has available tax loss carryforwards of approximately CHF 1 074 million, of which CHF 540 million will expire in the next five years and CHF 430 million will expire between five and twenty years. The remaining carryforwards do not expire.

At December 31, 2007, unremitted earnings of subsidiaries outside of Switzerland of approximately CHF 120 million were deemed to be permanently invested. Therefore, no deferred tax liability has been recognized for taxes that might be incurred if such earnings were remitted to Switzerland.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result, the Company recognized an additional CHF 3 million increase in the liability for uncertain tax positions taken, which was accounted for as a decrease in the January 1, 2007 balance of retained earnings. Changes in the Company's reserves for uncertain tax positions during 2007 were as follows:

	2007
Balance at beginning of year	**83**
Initial adoption of FIN 48	**3**
Increase related to prior year tax positions	**12**
Decrease related to prior year tax positions	**(3)**
Increase related to current year tax positions	**3**
Decrease from settlements with tax authorities	**(38)**
Decrease from expiration of statute of limitations	**(9)**
Foreign currency translation	**(1)**
Balance at end of year	**50**

The amount of interest and penalties related to uncertain tax positions included in the above reserve or in income tax expense for the year ended December 31, 2007 is not material. In the major tax jurisdictions in which the Company operates, tax years ranging from 1997 to 2007 remain open for examination by tax authorities.

As a result of uncertain tax benefits that are expected to be taken in 2008, the Company believes it is reasonably possible that reserves could increase by CHF 3 million in 2008. As a result of the expiration of the statute of limitations, the Company believes it is reasonably possible reserves could decrease by CHF 11 million in 2008.

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16. Other liabilities

	2007	2006
Environmental remediation and compliance	**377**	411
Retirement and postemployment benefits	**697**	791
Other	**211**	177
Total	**1 285**	1 379

The environmental remediation and compliance accrual, including the current portion, decreased in 2007 by a net CHF 34 million as a result of CHF 27 million usage of the accrual (see Note 22), an increase of CHF 2 million in provisions, and a decrease related to currency effects of CHF 9 million. The environmental remediation and compliance accrual, including the current portion, decreased in 2006 by CHF 46 million as a result of a CHF 25 million usage of the accrual and a decrease of CHF 7 million in provisions, and a decrease related to currency effects of CHF 14 million.

17. Shareholders' equity

The Company's shareholders have approved the creation of authorized and conditional capital of the Company. The approval allows for the issuance of an additional 10 million registered shares with a par value of CHF 1 per share (2006: CHF 1 per share). Of these 10 million shares, 6 million may be issued only through the exercise of option or conversion rights and the remaining 4 million may be issued until March 2008, but would be subject to certain transfer restrictions. Unless specifically permitted by the Company's Board of Directors, no shareholder may be registered as a shareholder with voting rights for more than 2 percent of the Company's common stock.

At the Company's Annual General Meeting on March 8, 2007, the shareholders approved a dividend payment to the shareholders of CHF 3 per share, based on 2006 results (2006: CHF 3 per share dividend payment). The dividend payment, which totaled CHF 201 million, was made on March 13, 2007 (2006: CHF 199 million dividend paid on March 8, 2006).

According to the Swiss Code of Obligations, the Company may under certain conditions, as defined, acquire up to 10 percent of its own shares. In 2007 and 2006 the Company effected the following treasury stock transactions:

IN MILLIONS OF SHARES	2007	2006
Treasury stock at January 1,	**1.6**	2.6
Purchased at market prices	**1.5**	1.5
Sold at market prices	**(1.0)**	(2.5)
Treasury stock at December 31,	**2.1**	1.6

None of the Company's treasury shares were reserved as of December 31, 2007 and 2006.

The after-tax components of accumulated other comprehensive loss are as follows:

	2007	2006
Currency translation adjustment	**(322)**	(222)
Pension and post-retirement related	**(519)**	(707)
Other, net of tax	**1**	1
Accumulated other comprehensive loss	**(840)**	(928)

The currency translation adjustment is not adjusted for income taxes as it relates primarily to indefinite investments in non-Swiss subsidiaries. The deferred tax effect on the pension adjustment is a deferred tax benefit of CHF 199 million in 2007 (2006: CHF 273 million deferred tax benefit).

18. Stock-based compensation plans

Descriptions of the terms of the Company's stock-based plans are presented in the following paragraphs.

LTIP – The Company has a Long-Term Incentive Plan ("LTIP"), which grants both restricted and unrestricted shares of common stock of the Company to senior management and other key employees. Restricted shares are restricted from being sold by the grantee for three years from the date of grant.

In connection with the LTIP 2007, the Company granted 182 137 shares of common stock (of which most are restricted) with a market value at date of grant of CHF 83.10 per share to 545 participants and recognized compensation expense of approximately CHF 15 million in 2007 related to these grants.

In connection with the LTIP 2006, the Company granted 212 491 shares of common stock (of which most are restricted) with a market value at date of grant of CHF 81.70 per share to 697 participants and recognized compensation expense of approximately CHF 17 million in 2006 related to these grants.

In earlier years, the LTIP also provided for the granting of options to participants to purchase shares of common stock. No options have been granted since 2004. The 540 574 remaining options outstanding as of December 31, 2007 have a weighted average remaining contractual life of four years and a weighted average exercise price of CHF 100.32 per share.

MAB – The Company has a "Mitarbeiterbeteiligungsplan" (Employee Investment Plan) which grants annually to most employees in Switzerland (as an enhancement to their pension plan arrangements) the right to purchase 35 shares (2006: 30 shares) of common stock at CHF 10 per share as long as the share price is not greater than CHF 150 (2006: CHF 200), at which level the Employee Investment Plan price may be adjusted. The rights vest at the grant date and become exercisable at the date of the employees' retirement or termination. The following table summarizes rights activity under the MAB during 2007 and 2006:

	EXERCISE PRICE	RIGHTS OUTSTANDING
Balance at December 31, 2005	15.00	582 215
Rights granted	10.00	114 750
Rights exercised	14.23	(251 885)
Balance at December 31, 2006	**14.15**	**445 080**
Rights granted	10.00	91 875
Rights exercised	13.33	(46 520)
Balance at December 31, 2007	**13.45**	**490 435**

Compensation expense is recorded in the year the rights are granted and, in 2007, CHF 4 million (2006: CHF 5 million) of compensation expense was recorded under this plan.

CHANGE IN CONTROL AND RESERVE OF SHARES

Upon a change in control of the Company as defined, the vesting and restriction periods for the plans stated above will cease to apply and a cash or share payment for the value of the outstanding plans and related taxes and duties will be due to the participants.

At December 31, 2007 and 2006, the Company did not have any shares of treasury stock reserved for issuance under the various stock based compensation plans.

19. Retirement benefits

The Company sponsors pension and other postretirement benefits in accordance with the applicable laws and customs in the countries in which the Company operates. The Company has defined contribution and contributory and non-contributory defined benefit pension plans.

DEFINED CONTRIBUTION PENSION PLANS

In countries in which employees are covered by defined contribution plans, employer contributions charged to income from continuing operations were CHF 13 million in 2007 and CHF 12 million in 2006.

DEFINED BENEFIT PENSION PLANS

Benefits to participants in the Company's defined benefit pension plans are generally based on employees' years of service and levels of compensation or stated amounts for each year of service.

The majority of the defined benefit pension plans are funded, whereby contributions made by the Company and plan participants are invested, and the resulting assets necessary to fund future benefit obligations are held by independent trustees for the benefit of plan participants. These plans are referred to as funded plans in this Note.

In certain countries in which the Company operates, principally Germany, local practice is that pension plans are not funded. In accordance with this practice, the Company does not fund these plans. The Company charges income from continuing operations for benefits earned in each period with a corresponding increase in pension liability. Benefit payments made each period to retirees are charged against this liability. These plans are referred to as unfunded plans in this Note.

Each year, the projected benefit obligation ("PBO"), which is the present value of projected future benefits payable to current plan participants allowing for estimated future employee compensation increases, is calculated for each plan. The measurement date for the Company's pension plans that make up the majority of plan assets and benefit obligations is December 31st for each year presented.

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The following table provides a reconciliation from beginning of year to end of year of the changes in PBO and the changes in the fair value of plan assets, as well as the PBO funded status of the plans. The PBO funded status consists of the excess (deficit) of the fair value of plan assets over (under) PBO.

	2007			2006		
	FUNDED PLANS	UNFUNDED PLANS	ALL PLANS	FUNDED PLANS	UNFUNDED PLANS	ALL PLANS
Change in projected benefit obligation (PBO)						
PBO, beginning of year	**3 818**	**556**	**4 374**	4 023	611	4 634
Service cost	**54**	**10**	**64**	82	11	93
Interest cost	**159**	**26**	**185**	154	26	180
Participant contributions	**26**	**0**	**26**	29	0	29
Actuarial (gain) loss	**(149)**	**(29)**	**(178)**	174	(14)	160
Plan amendments	**0**	**0**	**0**	(90)	0	(90)
Benefits paid	**(210)**	**(28)**	**(238)**	(194)	(29)	(223)
Foreign currency translation	**(86)**	**18**	**(68)**	18	15	33
Divestitures	**(8)**	**0**	**(8)**	(362)	(65)	(427)
Curtailments, settlements and other	**(2)**	**(2)**	**(4)**	(16)	1	(15)
PBO, end of year	**3 602**	**551**	**4 153**	3 818	556	4 374
Change in plan assets						
Fair value of plan assets, beginning of year	**3 693**	**–**	**3 693**	3 660	–	3 660
Actual return on plan assets	**230**	**–**	**230**	390	–	390
Employer contributions	**85**	**28**	**113**	116	29	145
Participant contributions	**26**	**–**	**26**	29	–	29
Benefits paid	**(210)**	**(28)**	**(238)**	(194)	(29)	(223)
Foreign currency translation	**(94)**	**–**	**(94)**	26	–	26
Divestitures	**(6)**	**–**	**(6)**	(304)	–	(304)
Settlements and other	**(4)**	**0**	**(4)**	(30)	0	(30)
Fair value of plan assets, end of year	**3 720**	**–**	**3 720**	3 693	–	3 693
PBO funded status	**118**	**(551)**	**(433)**	(125)	(556)	(681)

For 2007, approximately half of the Company's funded pension plans had PBO in excess of plan assets. For 2006, substantially all of the Company's funded pension plans had PBO in excess of plan assets.

ACCUMULATED BENEFIT OBLIGATION (ABO) STATUS OF DEFINED BENEFIT PENSION PLANS

Accumulated benefit obligation ("ABO") is less than PBO because ABO excludes assumptions as to future increases in employee compensation when calculating the present value of the future benefit obligation. The table below shows the ABO status at December 31, 2007 and 2006 of the Company's pension plans:

	2007				
	FUNDED PLANS				
	FULLY-FUNDED	UNDER-FUNDED	TOTAL	UNFUNDED PLANS	TOTAL PLANS
Accumulated benefit obligation (ABO)	3 012	303	3 315	514	**3 829**
Fair value of plan assets	3 472	248	3 720		**3 720**
ABO status – fully (under) funded	**460**	**(55)**	**405**	**(514)**	**(109)**

	2006				
	FUNDED PLANS				
	FULLY-FUNDED	UNDER-FUNDED	TOTAL	UNFUNDED PLANS	TOTAL PLANS
Accumulated benefit obligation (ABO)	3 183	339	3 522	522	4 044
Fair value of plan assets	3 424	269	3 693		3 693
ABO status – fully (under) funded	241	(70)	171	(522)	(351)

ADOPTION OF SFAS NO. 158

With the adoption of SFAS No. 158, effective December 31, 2006, unrecognized gains and losses are no longer excluded from the pension-related asset (liability) on the balance sheet. Instead, these unrecognized gains and losses, net of income tax, are recorded as assets or liabilities and as a component of accumulated other comprehensive income (loss) in shareholders' equity. SFAS No. 158 does not permit unrecognized gains and losses prior to December 31, 2006 to be recorded.

As a result of the adoption of SFAS No. 158, the Company recorded the following increases (decreases) as of December 31, 2006 to pension-related assets, liabilities and shareholders' equity:

DECEMBER 31,	2006
Minimum pension liability – intangible assets	(5)
Prepaid pension costs included in other assets	(699)
Deferred taxes included in other assets	27
Retirement benefits included in other liabilities	127
Deferred income taxes	(181)
Accumulated other comprehensive loss, net of tax	(623)

DEFINED BENEFIT PLAN PBO FUNDED STATUS BALANCE SHEET ITEMS

The following table shows the components of the Company's net pension asset (liability), including the balance sheet line items in which they are recorded, as of December 31, 2007 and 2006:

	2007		
	FUNDED PLANS	UNFUNDED PLANS	ALL PLANS
Pension asset included in other assets	217	0	**217**
Retirement benefits included in accruals and other current liabilities	0	(28)	**(28)**
Retirement benefits included in other liabilities	(99)	(523)	**(622)**
PBO funded status	**118**	**(551)**	**(433)**

	2006		
	FUNDED PLANS	UNFUNDED PLANS	ALL PLANS
Pension asset included in other assets	63	0	63
Retirement benefits included in accruals and other current liabilities	(2)	(27)	(29)
Retirement benefits included in other liabilities	(186)	(529)	(715)
PBO funded status	(125)	(556)	(681)

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NET DEFINED BENEFIT PLAN PENSION EXPENSE

The components of net pension expense for the Company's defined benefit pension plans during the years ended December 31, 2007 and 2006 were:

	FUNDED PLANS		UNFUNDED PLANS		ALL PLANS	
	2007	2006	**2007**	2006	**2007**	2006
Service cost	**54**	82	**10**	11	**64**	93
Interest cost	**159**	154	**26**	26	**185**	180
Expected return on plan assets	**(185)**	(196)	**–**	–	**(185)**	(196)
Amortization of unrecognized transition (asset) obligation	**(15)**	(14)	**0**	0	**(15)**	(14)
Amortization of prior service cost	**(18)**	(6)	**0**	0	**(18)**	(6)
Amortization of other unrecognized (gains) losses	**86**	84	**1**	3	**87**	87
Other (gains) losses recognized	**(5)**	3	**0**	(2)	**(5)**	1
Total net pension expense	**76**	107	**37**	38	**113**	145

PENSION-RELATED COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the changes to the pension-related components of accumulated other comprehensive loss for each of the years ended December 31, 2007 and 2006:

	2007			
	UNRECOGNIZED NET TRANSITION (ASSET) OBLIGATION	**UNRECOGNIZED PRIOR SERVICE COST**	**UNRECOGNIZED ACTUARIAL (GAINS) LOSSES**	**TOTAL**
Balance – beginning of year, pre tax	**(73)**	**(155)**	**1 208**	**980**
Arising during year	(4)	19	(227)	**(212)**
Recognized as component of net periodic benefit cost during year	15	18	(87)	**(54)**
Balance – end of year, pre tax	**(62)**	**(118)**	**894**	**714**
Tax provision (benefit)	19	34	(251)	**(198)**
Balance – end of year, net of tax	**(43)**	**(84)**	**643**	**516**

	2006			
	UNRECOGNIZED NET TRANSITION (ASSET) OBLIGATION	UNRECOGNIZED PRIOR SERVICE COST	UNRECOGNIZED ACTUARIAL (GAINS) LOSSES	**TOTAL**
Balance – beginning of year, pre tax	5	6	157	168
Arising during year	0	0	(12)	(12)
Recognized as component of net periodic benefit cost during year	(3)	6	(10)	(7)
Adjustment to initially apply FASB Statement No. 158	(75)	(167)	1 073	831
Balance – end of year, pre tax	(73)	(155)	1 208	980
Tax provision (benefit)	21	44	(338)	(273)
Balance – end of year, net of tax	(52)	(111)	870	707

Amortization of the above unrecognized pension-related items that is expected to be recognized as components of net periodic benefit cost in 2008 are as follows: net transition asset, CHF 15 million; prior service cost, CHF 15 million; actuarial gains, CHF 48 million.

KEY ASSUMPTIONS

The weighted average key actuarial assumptions used to determine the Company's pension benefit obligations were as follows:

	2007	2006
Discount (interest) rate	**4.6%**	4.3%
Rate of increase in compensation levels	**2.3%**	2.6%

The weighted average key actuarial assumptions used to determine the Company's net periodic benefit cost were as follows:

	2007	2006
Discount (interest) rate	**4.3%**	4.0%
Rate of increase in compensation levels	**2.6%**	2.4%
Expected long-term rate of return on plan assets	**5.7%**	5.6%

The determination of the overall expected long-term rate of return on plan assets for the Company's funded plans is based on the following parameters: long-term expected inflation rates, long-term inflation-adjusted interest rates, and long-term risk premium of equity investments above risk free rates of return. In addition, long-term historical rates of return adjusted, where appropriate, to reflect more recent developments, are used.

FUNDED DEFINED BENEFIT PENSION PLAN ASSETS

The investment policies and strategies for plan assets held by funded defined benefit pension plans are directed toward the overriding target of achieving, on a long-term basis, the necessary return on plan assets to meet benefit obligations as they become payable. Factors included in the investment strategy for plan assets include achievement of consistent year-over-year results, effective risk management based on the level of each plan's funding status, and effective plan cash flow management. Further, the investment policies generally exclude direct investments in the Company's equity or debt securities.

For the Company's funded defined benefit pension plans, the weighted average actual plan asset allocation percentages as of December 31, 2007 and 2006, and the range of weighted average target plan asset allocation percentages in effect as of December 31, 2007, are as follows:

	ACTUAL PLAN ASSET ALLOCATION PERCENTAGES AT DECEMBER 31,		TARGET PLAN ASSET ALLOCATION PERCENTAGES AT DECEMBER 31, 2007
	2007	2006	
Asset category			
Equity securities	**42%**	44%	**40% – 50%**
Debt securities	**47%**	38%	**40% – 50%**
Real estate	**9%**	14%	**5% – 15%**
Other	**2%**	4%	**0% – 5%**
Total	**100%**	100%	

At December 31, 2007 and 2006, the Company's pension plans did not own any Company common stock.

The following table shows the undiscounted benefit amounts expected to be paid for each of the next five successive fiscal years and for the aggregate next five years thereafter:

	FUNDED PLANS	UNFUNDED PLANS	ALL PLANS
Undiscounted expected benefit payments			
2008	155	28	**183**
2009	160	29	**189**
2010	167	30	**197**
2011	174	31	**205**
2012	182	32	**214**
Aggregate for 2013 through 2017	998	170	**1 168**

The amount expected to be contributed by the Company to its defined benefit pension plans during 2008 is CHF 91 million.

OTHER POSTRETIREMENT BENEFITS

The Company's net liability for other postretirement benefits at December 31, 2007 was CHF 60 million (December 31, 2006: CHF 59 million) resulting principally from the postretirement healthcare plan in the United States. The Company's other postretirement plans are not funded by the Company, do not have significant unrecognized losses, did not require significant amounts to be recognized in the Consolidated Statements of Income for 2007 or 2006, and are not expected to require significant future annual benefit payments.

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20. Earnings per share

In 2007 and 2006, there was no difference between basic and diluted earnings per share for income from continuing operations. For purposes of calculating diluted earnings per share, there were no required adjustments to the reported income from continuing operations or net income amounts for any of those years.

The calculation of diluted earnings per share in 2007 excluded 540 574 stock options outstanding with exercise prices between CHF 82.60 and CHF 111.40 and in 2006 excluded 1 182 607 stock options outstanding with exercise prices between CHF 82.60 and CHF 160.00, as their inclusion would have been antidilutive.

21. Related party transactions

TRANSACTIONS WITH ASSOCIATED COMPANIES

Investments in equity affiliates of CHF 106 million in 2007 and CHF 110 million in 2006 are included in financial investments and are described in Note 10.

Loans receivable from equity affiliates of CHF 2 million in 2007 and CHF 2 million in 2006 are included in other assets. Included is a loan to Compagnie Industrielle de Monthey SA, of CHF 2 million in 2007 (CHF 2 million in 2006), which bears interest at 4.0 percent (2006: 3.5 percent).

The Company had payables and accrued expenses to equity affiliates of CHF 7 million in 2007 and CHF 11 million in 2006, and short-term debt to equity affiliates of CHF 1 million in 2007 and CHF 1 million in 2006.

22. Commitments and contingencies

LEASE COMMITMENTS

The Company leases certain facilities under fixed-term operating and capital leases. The future minimum lease commitments required under these leases are: 2008: CHF 35 million; 2009: CHF 27 million; 2010: CHF 22 million; 2011: CHF 19 million; 2012: CHF 18 million; 2013 and thereafter: CHF 84 million. Rental expense amounted to CHF 52 million in 2007 and CHF 49 million in 2006.

In 2007, the Company sold its buildings at one of its sites and leased them back from the buyer under operating leases. The transaction was accounted for as sale-leaseback. Net proceeds from the transaction totaled CHF 101 million. The future minimum lease commitment and rental expense amounts related to these leases, which have terms ranging from 10 to 15 years, are included in the future minimum lease commitment amounts above.

PURCHASE COMMITMENTS

The Company has various purchase commitments for materials, supplies and items of permanent investment incident to the ordinary course of business. In the aggregate, these commitments are not in excess of current market prices and reflect normal business operations.

GUARANTEES

In the normal course of business, the Company has provided certain trade and other guarantees to third parties. The Company estimates that the fair value of these guarantees is not material and does not expect to incur losses as a result of these guarantees.

In connection with past divestments of businesses, the Company has issued certain indemnifications to the purchasers of those businesses related to the past actions of the Company in the area of compliance with environmental and tax regulations. At December 31, 2007, the Company had issued CHF 25 million of environmental indemnifications that expire in 2009. In addition, the Company has outstanding environmental indemnifications that were issued to the purchaser of its Performance Polymers and Textile Effects businesses, which were sold in May 2000 and June 2006, respectively. These environmental indemnifications are further discussed in the Environmental Matters section below. The Company has issued certain tax indemnifications in connection with divestments of businesses and in connection with certain debt financing arrangements of the Company that are unlimited in amount and, in certain instances, in time. As of December 31, 2007, the Company has recorded liabilities related to the environmental indemnifications totaling CHF 25 million (December 31, 2006: CHF 25 million). It is the opinion of the Company's management that the possibility is remote that these indemnifications will have a material adverse impact on the Company's Consolidated Financial Statements.

CONTINGENCIES

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

In connection with its former production site at Toms River, New Jersey in the United States, the Company's subsidiary in the United States received a demand from local authorities to remove a landfill at the site and has been named as a defendant in a lawsuit seeking compensation for alleged damages to the environment (see Environmental Matters below). In connection with certain polyacrylamide products, the Company's subsidiary in the United States has been named as one of the defendants in two class action lawsuits in West Virginia (see Litigation Matters below).

ENVIRONMENTAL MATTERS

Operating in the chemical industry, the Company is subject to stringent environmental, health and safety laws and regulations. It is the Company's policy to continuously develop and improve the environmental performance of key manufacturing processes through an active program to address environmental matters. In addition to process improvements, the Company uses advanced waste treatment and disposal facilities at all major manufacturing sites that allow the sites to comply with laws and regulations applicable to waste streams. In management's opinion, the Company substantially complies with all such laws.

For outstanding environmental matters that are currently known and estimable by the Company, provisions of CHF 426 million as of December 31, 2007 (CHF 460 million as of December 31, 2006) have been recorded in the accompanying Consolidated Balance Sheets. The Company anticipates that these provisions will be spent generally over the next thirty years or longer. The Company's environmental protection and improvement cash expenditures were CHF 34 million in 2007 (CHF 35 million in 2006), including investments in construction, operations and maintenance and usage of the provision.

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

The contractual terms of the sale of the Performance Polymers business stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Performance Polymers business prior to May 31, 2000, whereby damages for remediation in connection with sites outside the United States shall cover only 80 percent of the respective costs. The responsibility with respect to any non-United States sites covers environmental liabilities identified within fifteen years from May 31, 2000 and is limited to CHF 75 million. With respect to any such environmental liabilities in the United States, the Company's obligation to indemnify is unlimited in time and/or amount. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Performance Polymers business.

The contractual terms of the sale of the Textile Effects business stipulate that, in general, the Company will retain responsibility for environmental claims relating to the operations of the Textile Effects business prior to June 30, 2006. With respect to any such environmental liabilities, the Company's obligation to indemnify is unlimited in amount and to a period of fifteen years following June 30, 2006, except for off-site releases, liabilities resulting from non-compliance, and certain risk management assessments and upgrades to buildings at one specific site, which are unlimited in time. Novartis' environmental indemnification obligations to the Company described above are not affected by the sale of the Textile Effects business.

The Company continues to participate in environmental assessments and clean-ups at a number of locations, including operating facilities, previously owned facilities and United States Superfund sites. The Company accrues reserves for all known environmental liabilities for remediation costs when a clean-up program becomes probable and costs can be reasonably estimated. Clean-up of the most significant sites has been or is nearly completed, except as described in the following paragraphs.

At its Toms River, New Jersey remediation site, the Company's subsidiary in the United States is engaged in a large bioremediation project that is estimated to take up to another three years to complete. Based on management's current estimates, the Company's environmental provisions are adequate to cover the expected costs to complete this remediation plan.

In 2005, the Company's subsidiary in the United States received a demand from local authorities to remove the Cell 1 landfill at the Toms River site. Environmental experts have been consulted and extensive discussions have been held with the local authorities. The U.S. Environmental Protection Agency has stated its opinion that the landfill does not need to be removed. It is therefore the opinion of the Company's management that the possibility is remote that the Company would be compelled to remove the landfill or to incur additional material costs related to this demand.

The New Jersey Department of Environmental Protection has filed a lawsuit naming the Company's subsidiary in the United States as a defendant. The lawsuit seeks compensation for alleged damages to natural resources at the Toms River site. The Company is engaged in discussions with the local authorities for the resolution of this lawsuit. Based on management's current estimates, the Company's environmental provisions are adequate to cover the expected cost of settlement of this matter.

The planning for the total remediation of the waste disposal site in Bonfol, Switzerland, which was closed in 1976, has concluded and remediation is expected to begin in the near future. The responsibility for the remediation lies with eight chemical enterprises including among others the Company. The responsible companies cooperate with the governmental authorities to define the necessary measures in view of a final remediation of the site. The remediation effort could require up to ten years to complete. In management's opinion, based on the current remediation plans, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to complete the remediation at this site.

Remediation of the waste disposal site in Koelliken, Switzerland has commenced. The responsibility for the remediation lies with a consortium comprised of the canton and city of Zurich, the canton of Aargau and the Basel chemical industry, which includes the Company. The remaining remediation effort could require up to ten years to complete. In management's opinion, based on the current remediation plans, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to complete the remediation at this site.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

In the Basel region, several landfills (Switzerland, France and Germany) contain chemical waste in smaller volumes than exist for other industrial and household wastes. Presently, eleven landfills are the subject of investigations carried out with the authorities by the "Interessengemeinschaft Deponiesicherheit Regio Basel", an association of the involved pharmaceutical and chemical enterprises (including the Company). Investigations at six sites were completed in 2007 and the respective competent legal authorities are deciding on the need for remediation actions at these sites. As of December 31, 2007, no remedial actions have been defined or required in a legally binding form at any sites where the Company is involved. The remaining investigations are expected to be completed in 2008 or later. Upon their completion, the respective competent legal authorities will decide on the need for remediation actions, if any. In management's opinion, based on its current knowledge of these eleven landfills, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to monitor or remediate these sites.

At the Company's Monthey, Switzerland production site, planning has commenced for the activities needed to remediate groundwater and soil contamination that exists under and around the site, including control and monitoring activities. The responsibility for these activities lies with the Company and one other chemical enterprise. In management's opinion, based on the current plans, the Company's environmental provisions are adequate to cover the Company's share of the expected costs to perform this remediation.

In management's opinion, the environmental reserves accrued are sufficient to meet all currently known and estimable environmental claims and contingencies. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts provided. The effect of resolution of environmental matters on results of operations cannot be predicted due to uncertainty concerning both the amount and the timing of future expenditures and the results of future operations. Management believes that such additional amounts, if any, would not be material to the Group's financial condition but could be material to the results of operations or cash flows in a given period.

LITIGATION MATTERS

Two class action lawsuits were filed in 2002 and 2003 against the Company's subsidiary in the United States and other chemical suppliers in West Virginia relating to the sales of certain products to coal preparation plants. The major claim in both cases is a request for medical monitoring on behalf of a class of workers in coal preparation plants due to exposure to residual acrylamide in products manufactured by the Company and several other defendants. There are also a few personal injury allegations. The judge had narrowed the class of the cases to two states in the U.S. and decided to allow a class of workers at wastewater treatment plants to join the lawsuit. An appeal was denied that had been filed in 2007 by the Company's subsidiary and the co-defendants to challenge the allowance of a class of workers from a state outside of West Virginia as well as the phases in which the trial is to be held.

Based on knowledge and use of acrylamide in its own manufacturing operations for several years, the Company does not believe that these claims have merit. However, if any liability were found, there most likely would be a sharing of the liability among many of the defendants, although it is too soon to assess what share any defendant would have of that liability, if any. The Company has established adequate reserves for legal expenses related to these claims, and is confident that these reserves are sufficient to prevent the claims from having any material adverse effect on its financial position or the results of its operations. Further, it is the opinion of the Company's management that the possibility is remote that costs will be materially in excess of existing reserves and will therefore have a material adverse impact on the Company's Consolidated Financial Statements.

OTHER MATTERS

In the ordinary course of business, the Company is involved in lawsuits, claims, investigations and proceedings, including product liability, intellectual property, commercial, environmental, and health and safety matters. Although the outcome of any of these matters cannot be predicted with certainty, it is the opinion of the Company's management that the possibility is remote that any such matter will have a material adverse impact on the Company's business, financial position, cash flows or results of operations.

23. Restructuring, impairment and other charges

Restructuring, impairment and other charges consists principally of the following:

OPERATIONAL AGENDA

In 2006, following the divestment of Textile Effects Business, the Operational Agenda was launched to fully align the Company's structure and processes to the needs of the remaining business. The specific elements of the Operational Agenda focus on streamlining the Company's organizational and geographic footprint, implementing a Company-wide system structure with new software, improving capacity utilization and reducing production and maintenance costs, strengthening market and customer focus and improving the effectiveness of the Company's research and development capabilities.

The cost of the program is expected to reach CHF 300 million before taxes comprised of employee severance costs ranging from CHF 150 million to CHF 170 million due to the reduction of approximately 2 500 positions, asset impairment charges ranging from CHF 50 million to CHF 60 million and other costs ranging from CHF 70 million to CHF 90 million. The total range of costs expected by segment are: Plastic Additives CHF 50 million to CHF 60 million, Coating Effects CHF 50 million to CHF 60 million and Water & Paper Treatment CHF 60 million to CHF 70 million. The remainder of the costs are expected to be incurred in corporate. The planned project completion date is in 2009.

The following table summarizes the Operational Agenda restructuring and impairment activity incurred since inception:

	EMPLOYEE SEVERANCE	OTHER COSTS	TOTAL
Operational Agenda restructuring provisions			
Charged to operating income	8	8	16
Payments/settlements	(7)	(8)	(15)
Balance at December 31, 2006	**1**	**0**	**1**
Charged to operating income	45	14	**59**
Payments/settlements	(27)	(8)	**(35)**
Balance at December 31, 2007	**19**	**6**	**25**

	EMPLOYEE SEVERANCE	OTHER COSTS	IMPAIR-MENT	TOTAL
Operational Agenda restructuring charged to operating income				
Incurred during 2006	8	8	0	16
Incurred during 2007	45	14	36	**95**
Total incurred at December 31, 2007	**53**	**22**	**36**	**111**

Operational Agenda costs incurred since inception of the project by segment were CHF 17 million for Plastic Additives, CHF 24 million for Coating Effects and CHF 26 million for Water & Paper Treatment. All of these costs were incurred during 2007.

The Operational Agenda also includes in 2007 CHF 21 million of charges in connection with the implementation of a single platform of information technology systems.

PROJECT SHAPE

Project Shape, which was implemented in 2004 to integrate Raisio Chemicals into Segment Water & Paper Treatment and to realign the Textile Effects Business prior to its disposal in 2006, has been substantially completed.

INDEPENDENT AUDITORS' REPORT

REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF THE SHAREHOLDERS OF CIBA SPECIALTY CHEMICALS HOLDING INC.

As group auditors, we have audited the accompanying consolidated balance sheets of Ciba Specialty Chemicals Holding Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended (pages 61 to 87). These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We confirm that we meet the legal requirements concerning professional qualification and independence.

We conducted our audits in accordance with Swiss Auditing Standards and auditing standards generally accepted in the United States for the 2007 audit and Public Company Accounting Oversight Board (United States) ("PCAOB") standards for the 2006 audit. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting for 2007. Our audit for 2007 included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ciba Specialty Chemicals Holding Inc. and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 12, 2007, expressed an unqualified opinion thereon.

Ernst & Young AG

Cherrie Chiomento
(in charge of the audit)

Martin Mattes

Zurich, February 7, 2008

REPORT OF MANAGEMENT

The management of Ciba Specialty Chemicals Holding Inc. and its subsidiaries (the "Company") are responsible for the preparation and integrity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts. These management estimates and assumptions are based on management's best knowledge of current events and actions the Company may undertake in the future as of the date the financial statements are prepared.

Management relies upon established accounting procedures and related systems of internal control to meet its responsibilities to maintain reliable financial records. This effective control structure consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority, and comprehensive systems and control procedures. To assure the effective administration of internal control, management carefully selects and trains the Company's employees, develops and disseminates written policies and procedures, provides appropriate communication channels, and fosters an environment conducive to the effective functioning of controls. Important elements of the internal control systems are the worldwide monitoring performed by the Company's internal audit group that reports its findings and recommendations for possible improvements to management and the Audit Committee of the Board of Directors and the monitoring of internal controls over financial reporting.

We believe the Company's control structure provides reasonable assurance that transactions are executed in accordance with management authorization and that they are appropriately recorded in order to permit preparation of financial statements in conformity with generally accepted accounting principles, as well as adequate safeguards for the Company's assets.

The Company retains Ernst & Young Ltd, independent accountants, to examine its financial statements. Their accompanying report is based on an examination conducted in accordance with the standards of the American Institute of Certified Public Accountants ("AICPA") and Swiss Auditing Standards.

The Board of Directors exercises their responsibility for these financial statements through its Audit Committee that is composed entirely of independent directors. The Audit Committee meets regularly with the internal auditors, the independent accountants and the Company's management to discuss audit scope and results, internal control evaluations, and other accounting and financial reporting matters. The internal auditors and independent accountants have access to the Audit Committee without management's presence.

Armin Meyer
Chairman of the Board *

Jürg Fedier
Chief Financial Officer

Basel, February 7, 2008

* Armin Meyer had the function of Chairman of the Board and Chief Executive Officer during the year ended December 31, 2007.

FINANCIAL STATEMENTS

CIBA SPECIALTY CHEMICALS HOLDING INC. FINANCIAL STATEMENTS (IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE, PER SHARE AND COMPENSATION DATA)

STATEMENT OF INCOME	2007	2006
Financial income	**194**	73
Other income	**1**	16
Total income	**195**	89
Administrative expenses	**6**	8
Financial expenses	**15**	12
Taxes	**2**	4
Total expenses	**23**	24
Profit for the year	**172**	65

BALANCE SHEET	DECEMBER 31, 2007	DECEMBER 31, 2006
Assets		
Cash and cash equivalents	**234**	0
Accounts receivable: subsidiaries	**2**	8
Total current assets	**236**	8
Financial investments	**2 397**	2 676
Total long-term assets	**2 397**	2 676
Total assets	**2 633**	2 684
Liabilities and shareholders' equity		
Liabilities		
Subsidiaries	**74**	96
Third parties	**15**	15
Bonds	**300**	300
Accrued liabilities	**126**	126
Total liabilities	**515**	537
Shareholders' equity		
Common stock	**69**	69
Legal reserves		
General reserve	**1 467**	1 499
Treasury stock reserve	**48**	16
Retained earnings brought forward	**534**	563
Total shareholders' equity	**2 118**	2 147
Total liabilities and shareholders' equity	**2 633**	2 684

Notes to the financial statements of Ciba Specialty Chemicals Holding Inc.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the requirements of the Swiss Code of Obligations.

The short-term positions on the balance sheet denominated in foreign currencies are translated into Swiss francs at year-end exchange rates. The resulting exchange rate differences and the differences from current business operations are charged to the income statement.

2. CONTINGENCIES

	2007	2006
Guarantees for capital and interests for "Industrial Revenue Bonds"	**164**	173
Guarantees for the benefit of subsidiaries	**269**	292
Guarantees for bonds and notes for the benefit of subsidiaries	**1 810**	2 328
Total as per December 31,	**2 243**	2 793

Ciba Specialty Chemicals Holding Inc. is part of the value-added tax group of the Swiss affiliated companies of Ciba Specialty Chemicals and is therefore jointly and severally liable to the Swiss federal tax administration for their value-added tax liabilities.

3. BONDS

In 1999, the Company issued a CHF 300 million straight bond with an interest rate of 3.25 percent. Interest payments are due on April 6 of each year. Date of repayment is April 6, 2009.

4. FINANCIAL INVESTMENTS

Financial investments include loans to subsidiaries amounting to CHF 1 051 million (2006: CHF 996 million). The major direct and indirect investments in subsidiaries and joint ventures of Ciba Specialty Chemicals Holding Inc. are listed in this Annual Report in the section "Major Consolidated Subsidiaries and Associated Companies".

5. TREASURY STOCK (NUMBER)

	2007	2006
Treasury stock on January 1,	**1 563 984**	2 607 215
Purchased at market prices	1 521 209	1 496 342
Sold at market prices	(944 385)	(2 539 573)
Treasury stock on December 31,	**2 140 808**	1 563 984

6. COMMON STOCK

The Annual General Meeting of the Shareholders on April 20, 1998, March 3, 2005 and March 2, 2006 resolved the following:

Authorized increase of common stock

Until February 26, 2006 the Board of Directors had been allowed to issue up to 4 million fully paid in registered shares at a par value of CHF 1 per share. The Annual General Meeting of Shareholders on March 2, 2006 extended this term until March 2, 2008. This would result in an increase of the common stock by up to CHF 4 million.

Conditional increase of common stock

The Company's common stock can be increased by issuance of up to 4 million fully paid in registered shares at a par value of CHF 1 per share. This increase of the common stock by up to CHF 4 million is restricted to the execution of option and conversion rights. The subscription rights of the existing shareholders may be excluded.

The Company's common stock can be increased by issuance of up to 2 million fully paid in registered shares at a par value of CHF 1 per share. This increase of the common stock by up to CHF 2 million is restricted to the execution of option and conversion rights granted to the Company's employees.

7. MAJOR SHAREHOLDERS

According to our knowledge the following shareholders hold more than 2 percent of the Company's common stock:

	2007	2006
Templeton Group*	**8.6%**	13.0%
Mellon Bank N.A., Everett MA*	**4.5%**	4.7%
Nortrust Nominees, London*	**2.2%**	1.8%
Santander Nominee*	**6.8%**	1.1%

(*registered as nominees)

These shareholders may use their voting rights up to 2 percent of the common stock.

8. COMPENSATION

Total compensation to Members of the Board [CO 663b^{bis} Section 1 No. 1]

In 2007 the Members of the Board received as gross compensation a total of CHF 4 987 561, including allocated shares. The individual compensation was as follows:

NAME	FIXED CASH	FIXED NO. OF SHARES	VARIABLE CASH	VARIABLE NO. OF SHARES	CONTRIBUTION TO PENSION PLANS AND SOCIAL SECURITY	TOTAL
Armin Meyer (i) Chairman of the Board and CEO	2 039 691	3 008	83 460	15 367	290 270	**3 315 715**
Beat Hess Vice Chairman	13 027	3 079	–	–	13 060	**250 529**
Utz-Hellmuth Felcht	100 000	–	–	–	5 919	**105 919**
Erwin W. Heri	137 500	1 655	–	–	14 957	**289 988**
Gertrud Höhler	129 947	843	–	–	9 959	**209 959**
Jean-Marie Pierre Lehn	100 000	1 203	–	–	9 957	**209 926**
Peter Littmann	100 000	1 203	–	–	11 166	**211 135**
Uli Sigg	100 000	1 203	–	–	11 166	**211 135**
Kurt Feller (ii)	8 010	1 829	–	–	8 675	**183 255**

(i) As the functions of the Chairman of the Board and CEO were combined until the end of 2007, the total compensation for both functions is shown in the above table.
(ii) Kurt Feller stepped down as Vice Chairman of the Board at the occasion of the Annual General Meeting for 2006, held on March 8, 2007. The compensation as shown in the above table refers to 2006, of which half was payable after the Annual General Meeting.

Total compensation to the Executive Committee and to the highest paid individual [CO 663b^{bis} Section 1 No. 2]

In 2007 the Members of the Executive Committee received as gross compensation a total of CHF 11 268 543 including allocated shares. This amount also includes compensation based on contractual agreements paid to the former Chief Financial Officer who stepped down from his function after the Annual General Meeting for 2006 but remained at the disposal of the Company until June 30, 2007.

	FIXED CASH	FIXED NO. OF SHARES	VARIABLE CASH	VARIABLE NO. OF SHARES	CONTRIBUTION TO PENSION PLANS AND SOCIAL SECURITY	TOTAL
Members of the Executive Commitee	6 321 811	3 008	308 443	55 908	1 922 777	**11 268 543**

FINANCIAL STATEMENTS

CIBA SPECIALTY CHEMICALS HOLDING INC. FINANCIAL STATEMENTS (IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE, PER SHARE AND COMPENSATION DATA)

The highest compensation to a Member of the Executive Committee was received by the Chairman of the Board and CEO amounting to a total of CHF 3 315 715 including allocated shares in 2007, compared to CHF 3 934 831 including allocated shares in 2006, and included the following components:

NAME	FIXED CASH	FIXED NO. OF SHARES	VARIABLE CASH	VARIABLE NO. OF SHARES	CONTRIBUTION TO PENSION PLANS AND SOCIAL SECURITY	TOTAL
Armin Meyer [i] Chairman of the Board and CEO	2 039 691	3 008	83 460	15 367	290 270	**3 315 715**

[i] As the functions of the Chairman of the Board and CEO were combined until the end of 2007, the total compensation for both functions is shown in the above table.

Compensation to former Members of the Board and former Members of the Executive Committee [CO 663b^{bis} Section 1 no. 4]

In 2007 [one] former Member of the Executive Committee who had left the Company in 2006, received a total gross compensation in connection with his former function as member of the Executive Committee of CHF 617 520, including allocated shares and pension contributions. The payment to this former member of the Executive Committee was made in line with contractual agreements.

Valuation of shares allocated to Members of the Board and Members of the Executive Committee

Unrestricted shares are valued at their full tax value at time of grant or vesting respectively, restricted shares are valued at a discounted tax value in line with the relevant number of years of restriction (maximum three years).

Loans to Members of the Board and of the Executive Committee [CO 663b^{bis} Section 3 No. 1]

There are no outstanding loans to Members of the Board or to Members of the Executive Committee.

Loans to former Members of the Board and of the Executive Committee [CO 663b^{bis} Section 3 No. 2]

There are no outstanding loans to former Members of the Board or to former Members of the Executive Committee.

Closely Linked Persons [CO 663b^{bis} Section 1 No. 5, Section 3 No. 3, and Section 5]

The Company has neither made any share or option contributions to any Closely Linked Person, i.e. to a third party that is closely linked to Members of the Board or to Members of the Company's Executive Committee, nor has it paid any compensation to such Closely Linked Persons. There are no outstanding loans to Closely Linked Persons [CO 663b^{bis} Section 5].

To the extent that Closely Linked Persons have acquired shares or options of the Company on their own, such numbers are included in the table further below regarding shareholdings by Members of the Board and Members of the Executive Committee.

Shares and options held by Members of the Board and the Executive Committee [CO 663c]

As of December 31, 2007 the Members of the Board and the Members of the Executive Committee, including Closely Linked Persons in each case, held the following shares and options:

NAME	SHARES
Members of the Board:	
Armin Meyer Chairman of the Board and CEO	**100 659**
Beat Hess Vice Chairman	**3 089**
Utz-Hellmuth Felcht	**10**
Erwin W. Heri	**8 582**
Gertrud Höhler	**6 923**
Jean-Marie Pierre Lehn	**8 439**
Peter Littmann	**2 344**
Uli Sigg	**5 959**
Members of the Executive Committee:	
Brendan Cummins	**19 714**
Jürg Fedier	**8 618**
Martin Riediker	**14 102**
Hermann Angerer	**14 515**
James McCummiskey	**6 244**
Giordano Righini	**8 003**

The Company has not granted any options to Members of the Board or to Members of the Executive Committee since 2002.

Proposed appropriation of retained earnings

	2007	2006
Retained earnings of previous year	**362**	498
Profit for the year	**172**	65
Total retained earnings	**534**	563
Distribution of a dividend of CHF 2.50 gross (2006: 3.00 CHF) on 66 923 809 registered shares with a nominal value of 1.00 CHF per share (excluding treasury stock) [1]	**167**	202
Balance to be carried forward	**367**	361

[1] The appropriation of retained earnings is presented on the basis of the proposal for both fiscal years. The difference between retained earnings of the previous year showed in fiscal year 2007 and the balance to be carried forward in the prior year is due to the fact that the numbers of shares being subject to the dividend payment deviated from the number of shares as per December 31, 2006.

Report of the statutory auditors to the General Meeting of the Shareholders of Ciba Specialty Chemicals Holding Inc., Basel

As statutory auditors, we have audited the accounting records and the financial statements (statement of income, balance sheet, notes and proposed appropriation of retained earnings, see pages 90 to 93) of Ciba Specialty Chemicals Holding Inc., Basel, for the year ended December 31, 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of retained earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Cherrie Chiomento
(in charge of the audit)

Patrick Fawer

Zurich, February 7, 2008

MAJOR CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

AMERICAS	GROUP HOLDING %	SELLING	MANUFACTURING	RESEARCH	SERVICES, FINANCE
ARGENTINA					
Ciba Especialidades Químicas S.A., Buenos Aires	100	■			
BERMUDA					
Chemical Insurance Company Ltd., Hamilton	100				■
Ciba Specialty Chemicals Eurofinance Ltd., Hamilton	100				■
BRAZIL					
Ciba Especialidades Químicas Ltda., São Paulo	100	■	■		
CANADA					
Cantox Health Sciences Inc., Mississauga	100	■			
Ciba Canada Ltd., Mississauga	100	■	■		
CHILE					
Ciba Especialidades Químicas Ltd., Santiago de Chile	100	■			
COLOMBIA					
Ciba Especialidades Químicas S.A., Bogotá	100	■			
MEXICO					
Ciba S.A. de C.V., Mexico	100	■	■		
PANAMA					
Ciba Especialidades Químicas Colon S.A., Colon	100	■			
UNITED STATES OF AMERICA					
Ciba Corporation, Tarrytown, NY	100	■	■	■	

ASIA PACIFIC	GROUP HOLDING %	SELLING	MANUFACTURING	RESEARCH	SERVICES, FINANCE
AUSTRALIA					
Ciba (Australia) Pty. Limited, Thomastown	100	■	■		
BAHRAIN					
Ciba Middle East W.L.L., Manama (Al Seef District)	100	■			
CHINA					
Ciba (China) Ltd., Shanghai, Beijing and Guangzhou	100	■		■	■
Ciba (Hong Kong) Limited, Hong Kong	100	■			
Ciba (Jiangsu) Co. Ltd., Zhenjiang	100	■	■		
Ciba (Nanjing) Co. Ltd., Nanjing	100		■		
Ciba (Shanghai) Ltd., Shanghai	100	■			
Guangzhou Ciba Co. Ltd., Guangzhou	80		■		
Qingdao Ciba Pigments Co. Ltd., Qingdao	91		■		
Shanghai Ciba Gao-Qiao Chemical Co. Ltd., Shanghai	75	■	■		
Xiangtan Chemicals & Pigments Co. Ltd., Xiangtan	49	■	■		
INDIA					
Ciba India Limited, Mumbai [i]	69	■	■		
Ciba Research (India) Private Limited, Mumbai	100			■	■
Diamond Dye-Chem Ltd., Mumbai [ii]	69	■	■		
Virchow Drugs Limited, Hyderabad	35	■	■		
INDONESIA					
PT Ciba Specialty Chemicals Indonesia, Jakarta	100	■			
PT Intercipta Kimia Pratama, Jakarta	60	■	■		
PT Latexia Indonesia, Jakarta	100	■	■		
JAPAN					
Ciba Japan K.K., Osaka	100	■		■	
Musashino-Geigy Company Ltd., Kitaibaraki	75	■	■		
Nippon Alkyl Phenol Co. Ltd., Tokyo	47	■	■		
REPUBLIC OF KOREA (SOUTH KOREA)					
Ciba Korea Ltd., Seoul	100	■	■		
Daihan Swiss Chemical Corporation, Seoul	100	■	■	■	
Doobon Fine Chemical Co. Ltd., Cheongwon-gun	63	■	■		
SINGAPORE					
Ciba (Singapore) Pte. Ltd., Singapore	100	■			
Ciba Industries (Singapore) Pte. Ltd., Jurong Island	100	■	■		
SOUTH AFRICA					
Ciba Specialty Chemicals (Pty) Ltd., Spartan	100	■			
TAIWAN					
Ciba (Taiwan) Limited, Kaohsiung	100	■	■		
THAILAND					
Ciba Specialty Chemicals (Thailand) Ltd., Bangkok	100	■			

EUROPE	GROUP HOLDING %	SELLING	MANUFACTURING	RESEARCH	SERVICES, FINANCE
AUSTRIA					
Ciba Österreich GmbH, Pischelsdorf/Zwentendorf	100	▮	▮		
BELGIUM					
Ciba Specialty Chemicals N.V., Groot-Bijgaarden	100	▮			
DENMARK					
A/S Alfred Gad, Lynge	100	▮			
FINLAND					
Ciba Specialty Chemicals Oy, Raisio	100	▮	▮	▮	▮
Finnamyl Oy, Raisio	100	▮	▮		
FRANCE					
Ciba Spécialités Chimiques SA, Lyon	100	▮	▮	▮	
GERMANY					
Ciba Grenzach GmbH, Grenzach-Wyhlen	100		▮	▮	
Ciba Holding Deutschland GmbH, Lampertheim	100				▮
Ciba Lampertheim GmbH, Lampertheim	100	▮	▮	▮	
HUNGARY					
Ciba Specialty Chemicals Central Eastern Europe Ltd., Budapest	100	▮			
ITALY					
Ciba S.p.A., Sasso Marconi (Bologna)	100	▮	▮	▮	
Magenta Master Fibers S.r.l., Milano	60	▮	▮		
LUXEMBOURG					
Ciba Specialty Chemicals Finance Luxembourg S.A., Luxembourg	100				▮
NETHERLANDS					
Ciba Specialty Chemicals (Maastricht) B.V., Maastricht	100	▮	▮	▮	
Ciba Specialty Chemicals Heerenveen B.V., Heerenveen	100	▮	▮	▮	
Ciba Specialty Chemicals International Nederland B.V., Maastricht	100				▮
Ciba Specialty Chemicals Treasury Services B.V., Maastricht	100				▮
SPAIN					
Ciba Especialidades Químicas S.L., Barcelona	100	▮	▮		

	GROUP HOLDING %	SELLING	MANUFACTURING	RESEARCH	SERVICES, FINANCE
SWEDEN					
AB CDM, Västra Frölunda	100	▮			
Ciba Specialty Chemicals Sweden AB, Göteborg	100	▮			
SWITZERLAND					
Ciba AG, Basel	100	▮	▮	▮	
Ciba International AG, Basel	100				▮
Ciba Kaisten AG, Kaisten	100		▮		
Ciba Monthey SA, Monthey	100		▮		
Ciba Schweizerhalle AG, Muttenz	100		▮		
Ciba Services AG, Basel	100				▮
Ciba Specialty Chemicals Holding Inc., Basel [iii]					▮
Ciba Spezialitätenchemie Finanz AG, Basel	100				▮
CIMO Compagnie Industrielle de Monthey SA, Monthey	50				▮
TURKEY					
Ciba Özel Kimyevi Ürünler Sanayi ve Ticaret Ltd., Istanbul	100	▮			
UNITED KINGDOM					
Ciba UK Investment plc, Macclesfield	100				▮
Ciba UK plc, Macclesfield	100	▮	▮	▮	
Pira International Limited, Leatherhead	100	▮		▮	

To enhance the readability of this report and because of being less relevant, the share or quota capitals of Ciba group companies are not indicated herein, with the exception of Ciba Specialty Chemicals Holding Inc. and of Ciba India Limited, two publicly listed companies.

[i] The shares of Ciba India Limited, Mumbai, ("CIL") are listed on the Bombay Stock Exchange Limited (www.bseindia.com) under the scrip name "Ciba India"; the scrip code is 532184. The total market value of the 13 280 819 outstanding shares of CIL as of December 31, 2007, was approximately CHF 118.08 million (INR 4045.337 million). As of December 31, 2007, the Ciba Group held 9 200 887 Equity Shares, representing 69.28 percent of the paid-up share capital of CIL.

[ii] Diamond Dye-Chem Ltd. is a wholly owned subsidiary of CIL.

[iii] Ciba Specialty Chemicals Holding Inc. is the ultimate holding company of Ciba Group. Its Shares are listed on the Swiss Exchange (SWX) and traded on the virt-x trading platform in London.

SUMMARY OF SELECTED FINANCIAL DATA

(IN MILLIONS OF SWISS FRANCS, EXCEPT SHARE AND PER SHARE DATA)

	2007	2006	2005	2004	2003
Results of operations					
Net sales	**6 523**	6 352	6 035	5 630	5 155
Operating income before restructuring, impairment and other charges	**552**	531	509	546	494
Restructuring, impairment and other charges	**(118)**	(69)	(120)	(91)	0
Operating income	**434**	462	389	455	494
Income from continuing operations	**220**	259	200	236	301
Income (loss) from discontinued operations, net of tax	**17**	53	(456)	70	44
Loss on sale of discontinued operations, net of tax	**0**	(353)	0	0	0
Cumulative effect of change in accounting principles, net of tax	**0**	0	0	0	(16) [i]
Net income (loss)	**237**	(41)	(256)	306	329
Earnings (loss) per share, basic and diluted					
Continuing operations	**3.27**	3.91	3.06	3.57	4.41
Discontinued operations	**0.26**	(4.54)	(6.98)	1.07	0.64
Cumulative effect of change in accounting principles	**0.00**	0.00	0.00	0.00	(0.23) [i]
Net income (loss) per share	**3.53**	(0.63)	(3.92)	4.64	4.82
Equity per share	**49.38**	47.61	58.73	62.78	62.76
Dividend per share [ii]	**2.50**	3.00	3.00	1.00	0.00
Capital reduction per share	**0.00**	0.00	0.00	2.00	3.00
Weighted average shares outstanding, basic and diluted (in millions)	**67.1**	66.2	65.3	66.1	68.4
Other data – continuing operations					
Net sales development percentage	**3%**	5%	7%	9%	(5)%
Depreciation and amortization	**357**	359	372	344	313
Operating income margin before restructuring, impairment and other charges	**8.5%**	8.4%	8.4%	9.7%	9.6%
Operating income margin	**6.7%**	7.3%	6.4%	8.1%	9.6%
Capital expenditures	**268**	236	246	245	205
Research and development	**262**	270	272	259	249
Personnel costs	**1 527**	1 757	1 835	1 761	1 722
Number of employees at year end [iii]	**13 319**	14 130	19 105	19 338	18 658
Balance sheet data					
Current assets	**3 340**	3 554	4 267	4 381	4 936
Property, plant and equipment, net	**2 426**	2 576	2 693	2 627	2 557
Total assets	**8 788**	9 081	10 612	10 996	11 095
Short-term debt	**599**	173	266	547	245
Long-term debt	**1 980**	2 709	2 941	2 916	3 187
Common stock	**69**	69	69	212	433
Shareholders' equity	**3 305**	3 214	3 903	4 152	4 253

[i] The Company applied FASB Interpretation No. 46(R) "Consolidation of Variable Interest Entities" to a previously unconsolidated trust that leases an asset to the Company, resulting in the consolidation by the Company of the trust in 2003.

[ii] The Board of Directors proposes a cash dividend payment to the Company's shareholders in 2008 of CHF 2.50 per share, based on 2007 results, which is reflected in the 2007 column in the table above. The dividend is subject to shareholder approval at the Annual General Meeting to be held on March 7, 2008.

[iii] The number of employees figures for 2005 and prior years include both continuing as well as discontinued operations.

	2007	2006	2005	2004	2003
Business segment data					
Plastic Additives					
Net sales	**2 161**	2 090	1 938	1 895	1 822
Operating income	**306**	312	260	224	165
Operating income margin	**14.2%**	14.9%	13.4%	11.9%	9.1%
Coating Effects					
Net sales	**1 837**	1 801	1 703	1 721	1 717
Operating income	**195**	244	226	286	297
Operating income margin	**10.6%**	13.6%	13.2%	16.6%	17.3%
Water & Paper Treatment					
Net sales	**2 525**	2 461	2 394	2 014	1 616
Operating income	**90**	81	128	128	125
Operating income margin	**3.6%**	3.3%	5.4%	6.3%	7.8%
Trading prices on the Swiss Exchange (price per share in CHF)					
Annual highs	**85.80**	84.95	85.00	96.14	101.50
Annual lows	**45.30**	63.30	72.51	76.70	74.75
Period end	**52.50**	81.05	85.00	86.50	92.37

GLOSSARY OF FINANCIAL TERMS

BASIC EARNINGS PER SHARE
is defined as net income divided by the weighted average number of common shares outstanding during the reporting period.

CASH FLOWS FROM OPERATING ACTIVITIES
is the net cash provided from the principal revenue-producing activities of the business. It excludes financing and investing activities.

CASH FLOW HEDGES
are hedges of the exposure to variability in expected future cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

COMPREHENSIVE INCOME
is the change in equity of the Company during the year from transactions and other events, other than dividends paid, treasury stock and common stock transactions. It includes (i) net income for the year; (ii) the current year's currency translation adjustment; (iii) the current year's unrealized gains and losses on available-for-sale securities, net of tax; (iv) the changes in the effective portion of derivative financial instruments' fair value, net of tax, that qualify and that are designated as cash flow hedges and (v) the change in the pension funded status during the current year which is not recognized in the Statement of Income, net of tax.

DEFINED BENEFIT PENSION PLAN
is a pension plan that provides employees at their date of retirement, a predefined payment. The payment is, depending on the benefit plan, a function of one or more factors such as age, years of service or compensation level of the employee.

DEFINED CONTRIBUTION PENSION PLAN
is a pension plan that provides employees, at the date of their retirement, benefits based on the amount of capital paid-in by the participant or the Company, plus returns earned on the investment of those contributions.

DERIVATIVES, DERIVATIVE FINANCIAL INSTRUMENTS
are financial contracts or agreements, the value of which is linked to current or future interest rates, exchange rates, prices of securities, or financial or commodity indices. Derivative financial instruments used by the Company include forward exchange contracts, options and interest and currency swaps. The Company uses these instruments to reduce its exposure to adverse fluctuations in interest and exchange rates and other market risks.

DILUTED EARNINGS PER SHARE
is similar to basic earnings per share (net income divided by the weighted average number of common shares outstanding) except that it reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible debt, were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Company. Anti-dilutive effects are not considered.

EQUITY PER SHARE
is calculated by dividing total shareholders' equity by the number of outstanding common shares (total common shares issued less treasury shares) at the balance sheet date.

FAIR VALUE HEDGES
are hedges of the exposure to changes in the fair value of a recognized asset or liability, or an identified portion of such asset or liability, (the hedged item) that is attributable to a particular risk.

FREE CASH FLOW
is cash flows from operating activities from continuing operations before restructuring payments less net cash from investing activities before sale (acquisition) of businesses, net of cash.

GOODWILL
is recognized in an acquisition of a business if the amount of the consideration paid by the Company is in excess of the fair value of the acquired entity's tangible and identifiable intangible net assets.

GROSS PROFIT MARGIN
is gross profit expressed as a percentage of net sales.

A HEDGE
is an economic relationship between a hedged item and a derivative financial instrument whereby losses or gains are expected to offset each other in whole or in part.

A HEDGED ITEM
is specifically identified as either all or a specific portion of a recognized asset, a liability, a forecasted transaction or of an unrecognized firm commitment.

HEDGE EFFECTIVENESS
is the portion of the derivative financial instrument's change in fair value that offsets the change in the fair value or cash flows of the hedged item.

HEDGE INEFFECTIVENESS
is the amount by which the derivative financial instrument's change in fair value does not equal the change in fair value or cash flows of the hedged item.

INTENSITY
is an amount expressed as a percentage of net sales. Intensity of inventories is equal to the inventories divided by net sales. Intensities of accounts receivables and accounts payable are calculated correspondingly.

INVESTED CAPITAL
is calculated as total assets less non-interest bearing current liabilities (i.e. accounts payable, income taxes payable, accruals and other current liabilities, except the current portion of deferred tax liabilities) and less deferred tax assets.

NET CASH PROVIDED BY OPERATING ACTIVITIES
has the same meaning as Cash Flows from Operating Activities.

NET CURRENT OPERATING ASSETS
is the sum of inventories and accounts receivable less accounts payable.

NET DEBT
is the sum of short-term debt and long-term debt less cash and cash equivalents and short-term investments.

NET SALES DEVELOPMENT PERCENTAGE
is the change in the current period's net sales in Swiss francs over the previous period's sales in Swiss francs expressed as a percentage.

NET SALES DEVELOPMENT PERCENTAGE, IN LOCAL CURRENCIES
is the change in the current period's net sales in local currencies over the previous period's net sales in local currencies expressed as a percentage.

OPERATING INCOME MARGIN
is operating income expressed as a percentage of net sales.

OTHER INTANGIBLE ASSETS
are assets (excluding financial assets) that lack physical substance, not including goodwill. They may include, but are not limited to, such assets as trademarks; trade names; patented and unpatented developed technology and know how; trade secrets, including processes and formulations; certain agreements such as licensing, royalty, non-compete, supply contracts, and operating permits; and customer relationships, lists, and contracts.

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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.


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