Ciba

Annual Report 2008

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.

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Milestones 2008

- Offer from BASF to buy Ciba was accepted by the majority of shareholders
- Joint venture for Plastic Additives was finalized in the Middle East
- Photoinitiator business in Italy was acquired by Coating Effects
- Restructuring initiatives delivered results in Water & Paper Treatment
- New antioxidant plant in Singapore came on-stream
- Conductive inks technology won printed electronics award
- A venture was set up to develop water soluble antimicrobial markets
- FDA approval was given for polypropylene clarifier used in food contact applications
- New "fireball" coating effect launched at a London design show
- Long-life phosphorescent material was developed for OLED technology

5 919m
Group sales
in CHF

5.2%
Operating income margin*
as percentage of sales

308m
Operating income*
in CHF

26m
Free cash flow*
in CHF

* before restructuring

Ciba at a glance

Ciba is a leading global company dedicated to producing high-value additives for its customers' products. We create effects that improve the quality of life – adding performance, protection, color and strength to plastics, paper, automobiles, buildings, home and personal care products, and much more.

We offer integrated solutions for many of the world's largest industries, following a tailored approach to individual customer needs – whether UV absorbers for sunscreen, high-performance pigments for architectural paints, or process chemicals for paper.

Plastic Additives

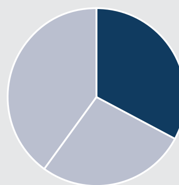
What we do

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.

Contribution to Group

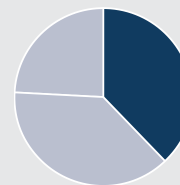
Sales

33%



Operating income*

37%



* before restructuring

A global presence

12 500 employees serving customers in…

120 countries with leading edge innovation developed in…

6 major R&D centers and made at…

59 production sites

Coating Effects

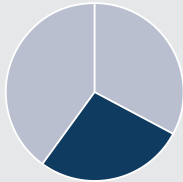
What we do

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

Contribution to Group

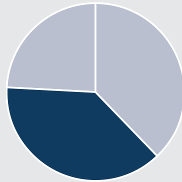
Sales

27%



Operating income*

39%



* before restructuring

Water & Paper Treatment

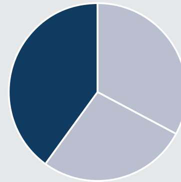
What we do

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.

Contribution to Group

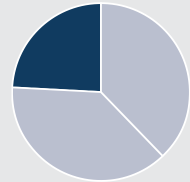
Sales

40%



Operating income*

24%



* before restructuring

Chairman's statement

2008 was certainly a turbulent year. It was a year that saw the oil price reach an unprecedented USD 145 a barrel, and a year that saw the downfall of Lehman Brothers, one of the most prestigious banks on Wall Street. These events defined 2008 and marked the beginning of a severe recession.

For Ciba, it was a year of fundamental change. On September 15, that same day Lehman Brothers went under, BASF made a cash offer of CHF 50 per share to Ciba shareholders. At a 32 percent premium to the existing share price and with clear strategic and industrial logic, as well as a commitment to bring a global BASF division to Basel, the Board decided to recommend that shareholders accept the offer.

Recommending the offer from BASF was a big decision for us. No matter how strong our products and market positions, Ciba was being squeezed between big customers and often even bigger suppliers and it was important for us to find the right long-term solution for the company. Joining forces with BASF – the world's biggest chemicals company and a company we knew well, as both one of our largest customers and suppliers – makes a great deal of strategic sense. We are able to leverage their distribution channels, buying power and backwards integration into many of our raw materials; as well as strengthen our product offerings. And on the other side, we bring BASF our outstanding innovation and market positions across many industries and geographies. We were therefore pleased that the overwhelming majority of our shareholders chose to accept the offer.

But back to 2008. "Turbulent" for me is undoubtedly the best term to describe the year. In the first half we saw raw material costs increasing to levels never before experienced in our industry. These increases undermined all the efforts we had made to improve profitability through better market focus and streamlined operations; and of course significantly impacted our margins. By the end of the year, we had managed to claw back much of the higher cost through sales price increases, but by that stage the economic downturn began to take effect in many of our customer markets and its severity had become clear. Steps were immediately taken to adjust capacity across the company, with temporary plant shutdowns, as well as the introduction of short working hours at a number of sites.

Despite this difficult business environment, we did make good improvements in many areas of the company. The Operational Agenda program to facilitate growth and reduce the cost base achieved CHF 145 million of savings in 2008 – considerably more than the CHF 100 million anticipated. The innovation and marketing initiatives helped drive more industry and market focus within the businesses, which will serve them well once there is some upturn in the economy.

On a segment level, Plastic Additives had a tough year, with demand weakening in the plastics industry, while Coating Effects maintained high profitability levels up until the end of the year when the construction and automotive industries started dramatically destocking. Water & Paper Treatment, however, showed growth in most areas, notably Asia, although the paper business was impacted by a slowdown in Europe.

It is a very difficult time for the chemical industry and our priority is to ensure that our businesses survive the downturn in the best possible shape. To this end, the Operational Agenda program has been accelerated and we are focusing strongly on cash generation, as well as inventory reduction and the close alignment of capacity to customer demand.

Regardless of the economic situation, it is a new era for Ciba. Our products and our businesses are now in the process of being integrated into BASF, or to be precise, the Badische Anilin- & Sodafabrik. This is the next incarnation of Ciba, whose roots date back 250 years, with Johann Rudolf Geigy-Gemuseus trading in "Materials, Chemicals, Dyes and Drugs of all kinds." The ensuing years have seen Ciba, or the Chemische Industrie Basel, founded in the middle of the 19th century, and merge with Geigy in 1970, creating a world powerhouse in chemicals and pharmaceuticals. We have been through a merger with our competitor across the Rhine, Sandoz, and been spun off from the then newly-formed Novartis in 1997. And now we become a part of our neighbor further down the Rhine, BASF. Ciba has had a rich and colorful past and I believe it has a rich and colorful future inside this great chemicals industry player.

This is my last letter as Chairman of the Board of Ciba and I would like to take this opportunity to thank you for your support, as well as thank the Board and the Executive Committee for their commitment. But most importantly, I would also like to thank our employees for all their hard work and efforts, and I wish them all the best for the future.

Armin Meyer
Chairman of the Board

Environment, Health & Safety

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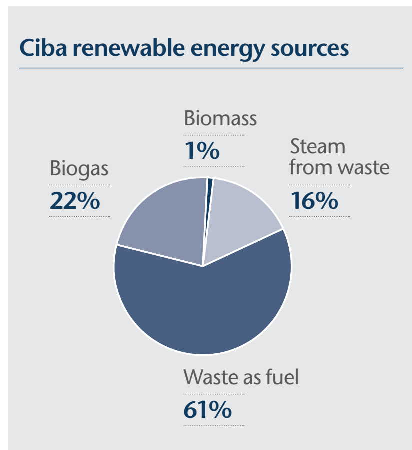
Acting responsibly

Ciba has developed tools that allow it to provide customers with product-by-product CO_2 emissions data, from production through delivery.



Managing our carbon footprint

Ciba's commitment to track and manage greenhouse gas emissions goes beyond its production sites. We are an active participant in the Carbon Disclosure Project (CDP), a non-profit organization, whose well-established annual report is based on the largest database of climate change information in the world. In addition to direct emissions by its production sites, we calculate emissions caused by the electricity consumed, as well as those incurred when products are shipped to customers by land, sea and air. In fact, Ciba has developed tools that allow it to provide customers with product-by-product CO_2 emissions data, from production through delivery. We are also contributing data to CDP for inclusion in its new Supply Chain Leadership Report.

Moving to renewable and alternative energy sources

In 2008, Ciba made further progress toward its goal of obtaining 15 percent of its energy from renewable and alternative sources by 2010. Worldwide in 2008, 11 percent of Ciba's primary energy comes from waste-derived fuels or renewable biomass. This figure does not include renewable energy like hydro-power included in electricity received from local power grids. During the year, we implemented new alternative energy projects in Mexico, USA, China, Finland and Switzerland. One site in the USA now meets 93 percent of its gas needs with landfill gas. What's more, moves to alternative energy sources in 2008 helped to reduce Ciba's climate-relevant CO_2 emissions by 36,400 tonnes or 4.1 percent. Momentum is building as new government incentives and tighter restrictions on landfills support industry's shift to alternative energy sources. Ciba is in the forefront of this movement with two major renewable energy projects awaiting permits in the USA and studies underway for three more in Europe.

REACH implementation

The most sweeping chemicals regulation enacted, REACH requires companies to register all chemical substances produced in or imported into the EU countries as well as Iceland, Norway and Liechtenstein, together known as the European Economic Area (EEA). Ciba is well prepared for REACH and has played an active role in shaping the REACH regulation, working closely with European authorities and industry associations since 1998. Today, REACH is very much an integral part of the way we do business.

In November 2008, Ciba completed pre-registration of all its finished products, intermediates and key raw materials that enter its European supply chain, including many substances bought, processed or sold at Ciba sites outside the EEA.

The REACH registration phase, which includes a series of deadlines established based on tonnage, began on December 1, 2008. During this phase, Ciba will continue to work closely with its customers and suppliers to prepare comprehensive dossiers including downstream applications as required under REACH.

Ciba's compliance under REACH will benefit its customers and their downstream users by ensuring the uninterrupted supply of products.

Working toward challenging targets

Ciba strives for continuous improvements in environment, health and safety matters. In 2006, we established a new set of 0-10-10 targets, which aim to achieve zero lost-time accidents, a 10 percent increase in the proportion of renewable energy we use, and a 10 percent reduction of unused waste by 2010.

Although the number of lost-time accidents increased from 25 to 34 in 2008, we are still well below the 44 accidents experienced in 2006. The majority of accidents remain in the area of mechanical and walking. During 2008, the severity of accidents has continued to decrease with mechanical, chemical and burn accidents all trending downward while we have seen an increase in walking accidents.

In 2008, 11 percent of our primary energy needs were met by renewable and alternative energy sources. That is a 100 percent increase over 2006 and half way to our goal of 15 percent by 2010. Projects are planned at more Ciba sites in 2009.

We are well on track to achieve our targeted 10 percent reduction in unused waste generation. Compared to 2006, unused waste generation fell by 7 percent in 2008 in absolute terms.

Making a difference everyday

West Memphis, USA

With a waste water project and upgrades to its scrubber systems, our production site in West Memphis, USA, reduced its annual air emissions by nearly 80 percent compared to 1999. In recognition of this achievement, the Arkansas Environmental Federation presented the site with its Diamond Award.

Ulsan, South Korea

Following extensive efforts to reduce energy consumption, our production site in Ulsan, South Korea, was recognized with a certificate by the South Korean government for superior performance in reducing energy consumption and carbon dioxide discharge volume.

Gaoqiao, Shanghai, China

Ciba has conducted regular assessments of supplier EHS performance since 2003. Through such assessments, Ciba raises awareness of its standards and expectations and provides help in addressing any gaps that are found. In 2008, Ciba staff from our Gaoqiao site conducted basic safety training for employees of five key raw material suppliers in Shanghai. The results of the training will be further evaluated when the suppliers are re-assessed in the future. This initiative is part of our ongoing efforts in Responsible Care®.

Ankleshwar, India

Our site in Ankleshwar, India, is using solar energy to reduce the amount of fuel required to incinerate the 125 tonnes of solid waste its waste water treatment plant generates annually. Because the waste is 60 percent water, it requires drying before incineration. In the past, this was done in the open air using sunlight. However, this was time consuming and inefficient. The site now operates a drying process incorporating a solar powered dryer that consistently removes water before incineration.

2008 Eco-performance

Comments to the graphs
This data was collected using our global SEEP (Safety, Energy and Environmental Protection) reporting system; it covers the period October 1, 2007 to September 30, 2008.

Fifty-four 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 have consolidated the figures in accordance with the UNCTAD guidelines on eco-efficiency indicators.

All of our five eco-efficiency parameters – energy use, water use, global warming contribution, contribution to ozone depletion and waste – decreased during 2008 in absolute terms.

Production volume decreased by 6.5 percent in 2008 and net value added, not including currency exchange variations, decreased by 13 percent. Calculated with 2000 exchange rates, it rose 4 percent.

Energy use decreased 3.4 percent in absolute terms. When related to production, energy use increased by 3.4 percent as the fixed energy component was absorbed by fewer tonnes of product. A large number of energy conservation measures, which were implemented during 2008 as part of the Lean Manufacturing program, will realize their full savings potential in 2009.

Water consumption decreased by 5 percent in absolute terms. When related to production it increased by 2 percent.

Our global warming contribution decreased by 5 percent in absolute terms, but increased by 2 percent when related to production. We have implemented programs to reduce our overall consumption and continue to substitute waste and renewable sources for fossil fuels.

Ozone depletion decreased in absolute terms by 11 percent and by 5 percent related to production. In 2008, 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, but increased by 5 percent when related to production.

Validation statement
The eco-efficiency data was validated by Ellipson AG.

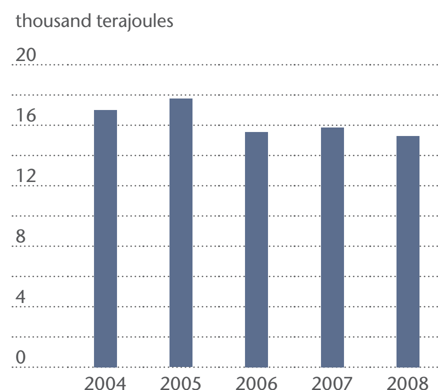
The full statement can be found under www.ciba.com/ehs

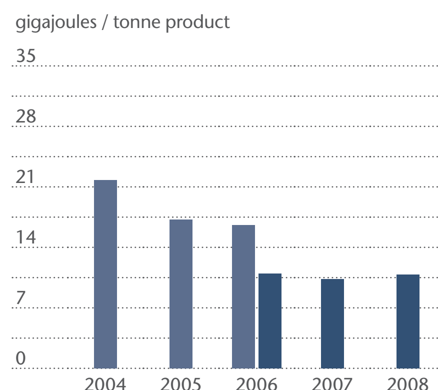
■ Values according to a new definition of production volume and water consumption; 2006 recalculated

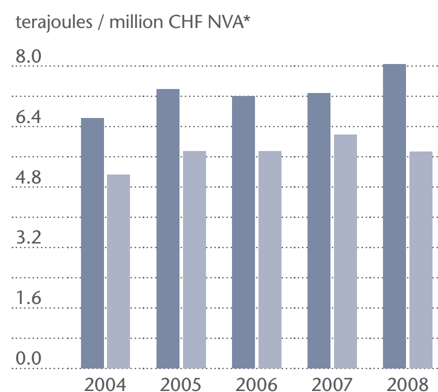
* ■ NVA: net value added – NVA is calculated in Swiss francs, using the formula: sales, minus costs of goods and services purchased, minus depreciation.

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

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.

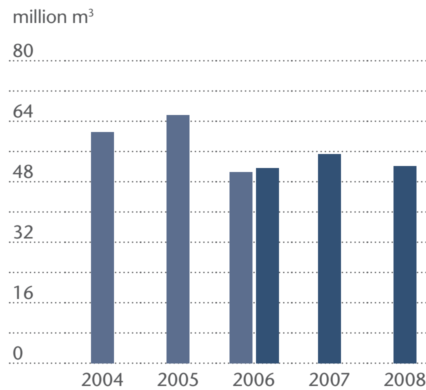


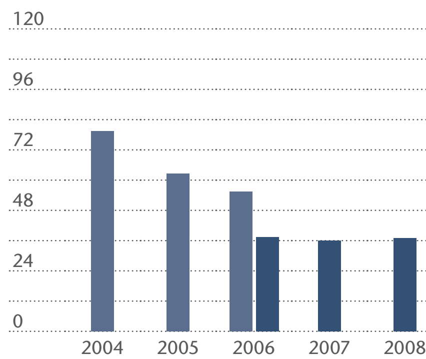


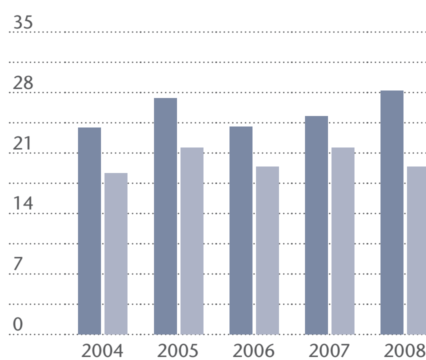


Water consumption

Total water entering sites, except rain and storm water.

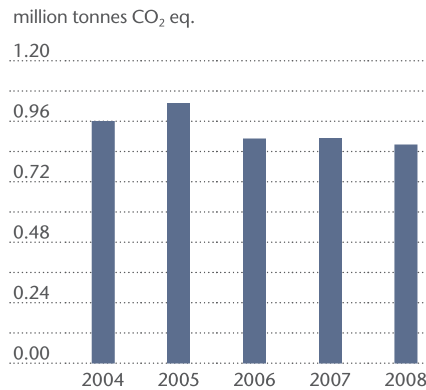


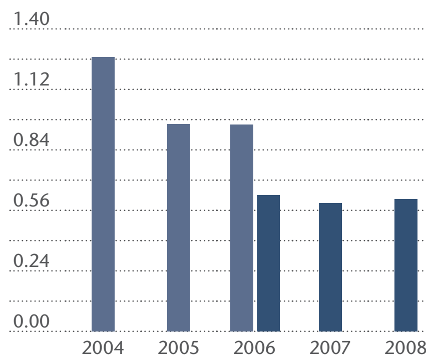


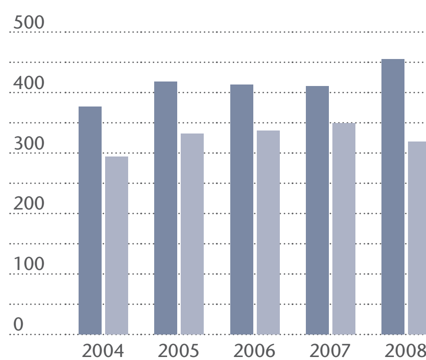


Global warming contribution

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).

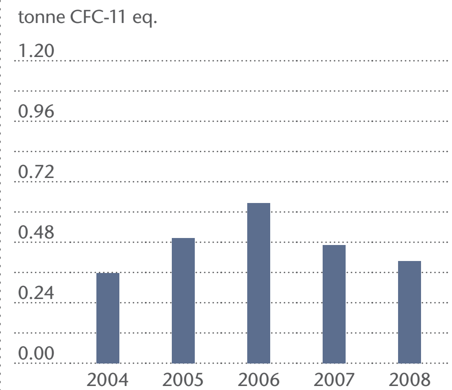


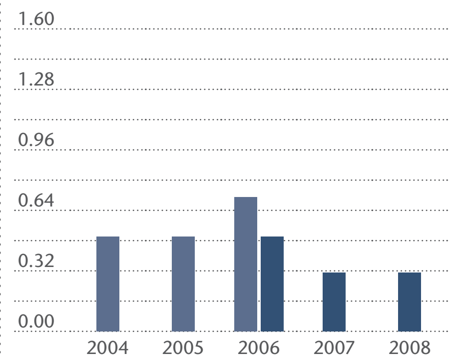


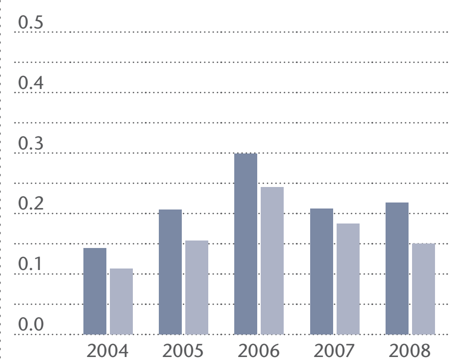


Contribution to ozone depletion

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

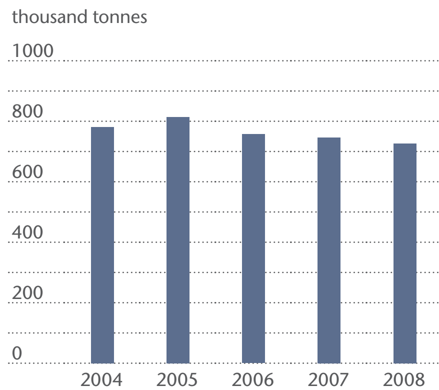


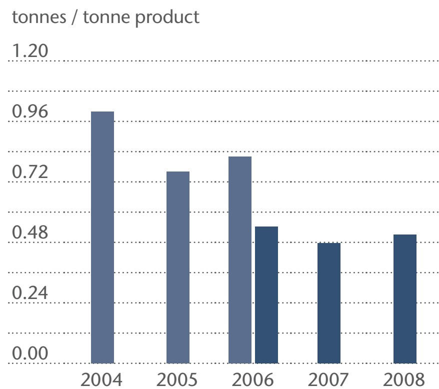


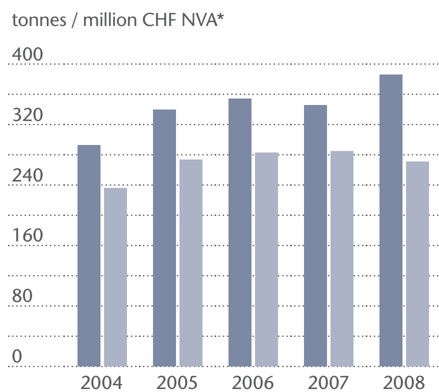


Waste

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







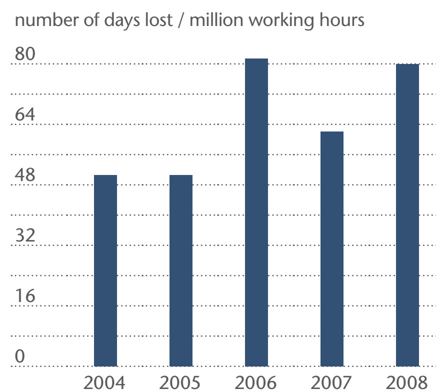
Lost-time accidents and illnesses 2008

During 2008, the severity of lost-time accidents (LTA) has continued to decrease with mechanical, chemical and burn accidents all trending downward, while we have seen an increase in walking accidents. Our prevention programs are now focusing on this area.

Overall, the number of lost-time accidents rose from 25 to 34, while the number of occupational illnesses was stable at 11. Days lost to LTAs decreased by 15 percent, while days lost through illness nearly doubled, reflecting an increase in severity.

Frequency of occupational accidents and illnesses

Severity of occupational accidents and illnesses



The following sites reported zero lost-time accidents

Out of the 54 facilities (2007: 54) completing the SEEP year, October 1, 2007 to September 30, 2008, 34 (2007: 41) sites reported zero lost-time and a further nine (2007: 7) had only one lost-time accident to report.

Site	Country
Kwinana	Australia
Thomastown	Australia
Wyong	Australia
Pischelsdorf	Austria
Paulínia	Brazil
Smith Falls	Canada
St. Nicholas	Canada
Guangzhou	China
Jiangsu	China
Qingdao	China
Shanghai	China
Kokemäki	Finland
Lapua	Finland
Mietoinen	Finland
Ribécourt	France
Sens	France
Ankleshwar	India
Goa	India
Merak	Indonesia
Mortara / Trivolzio	Italy
Chiba	Japan
Kitaibaraki / Isohara	Japan
Osaka	Japan
Doobon	Korea
Puebla	Mexico
Maastricht	Netherlands
Guturribay	Spain
Tolosa	Spain
Kaohshiung	Taiwan
Grimsby	United Kingdom
Paisley	United Kingdom
Newport	USA
Tarrytown	USA
West Memphis	USA

Corporate Governance

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The Board of Directors

The Board of Directors [DCG 3][1]

The Board of Directors is the most senior body of Ciba 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. In addition, the Board 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
- 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 Nomination and Corporate Governance 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
- absence 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.

[1] Numbers in square brackets refer to the Directive on Information Relating to Corporate Governance ("DCG") of the SIX Swiss Exchange

Armin Meyer became Chairman of the Board of Ciba 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. Since May 2008, he is Chairman of the Supervisory Board of Südchemie AG, Munich. In 2007, he joined One Equity Partners Europe as partner, and since then, he has also been a non-executive Member of the Board of CRH plc, Dublin, and since 1992 member of the Board of SGL Carbon AG, Wiesbaden. He is an Honorary Professor at the Technical University in Munich, Germany, as well as the Jilin University in Changchung, China. From February 2001 until May 2006, Utz-Hellmuth Felcht was CEO of Degussa AG, a multinational specialty chemicals corporation 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, Switzerland, he studied at the Institute of Social Science at the University of Basel, Switzerland, 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 economic and financial books.

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, France. 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 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, Germany, 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.

Significant Positions and Political Mandates outside the Company [DCG 3.2.A/B/C]

Name	Positions
Armin Meyer Chairman	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 Member of the Group Executive Committee, Royal Dutch Shell plc, The Hague Member of the Board of Directors, Nestlé S.A., Vevey
Utz-Hellmuth Felcht	Chairman of the Supervisory Board of Südchemie AG, Munich 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 Member of the Board, Jungbunzlauer Holding AG, Chur
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 Board, Infrassure Holding Inc., Zurich
Gertrud Höhler	Management Consultant Member of the Board of Directors, Bâloise-Holding AG, 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
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 2008, the Board held 17 meetings.

Topics of the Board in 2008

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 2008 on the following topics: The takeover by BASF, top

management review and appointments, personnel development, group business strategy and financial planning, Operational Agenda, mergers and acquisitions, positioning of segments and setting of their targets, assessment of the global economy, 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	1997	2012
Beat Hess Vice Chairman	2006	2010
Utz-Hellmuth Felcht	2007	2010
Erwin W. Heri	1997	2011
Gertrud Höhler	1997	2011
Jean-Marie Pierre Lehn	1997	2009
Peter Littmann	1997	2010
Thomas Koch Secretary (not Member of the Board)	2004	–

The Chairman of the Board [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 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, as well as nomination and corporate governance provide guidance and support to the full Board.

Audit Committee

Composition: The Audit Committee is composed of two non-executive and independent 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 four non-executive and independent 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].

Nomination and Corporate Governance Committee

Composition: The Nomination and Corporate Governance Committee is composed of three non-executive Members of the Board and the Chairman of the Board who chairs the Nomination and Corporate Governance Committee.

Mission: The Nomination and Corporate Governance Committee prepares and submits to the Board of Directors the objectives and principles of the human resources policy and monitors the implementation of these principles. This includes strategies on management and cooperation, management development and education, internal communication and preservation and enhancement of the Group's reputation in the Human Resources area. The Nomination and Corporate Governance Committee lays down the principles for the selection of candidates for election or re-election to the Board of Directors by the General Meeting and to the Executive Committee, appointed by the Board of Directors, and prepares a selection of candidates in accordance with these criteria. The Nomination and Corporate Governance Committee develops

Corporate Governance principles and respective documents and shall submit these to the Board of Directors for approval. The Nomination and Corporate Governance Committee reviews the Corporate Governance regulations periodically with respect to their compliance with legal requirements and best practices and reviews the independence of the members of the BoD at least annually. The Nomination and Corporate Governance Committee monitors the yearly performance evaluation of the Board of Directors.

Board committee memberships [DCG 3.5.2]

Name	Audit Committee	Nomination and Corporate Governance Committee	Compensation Committee
A. Meyer		●	
B. Hess	❍		●
U.-H. Felcht		❍	❍
E.W. Heri	●		
G. Höhler		❍	❍
J.-M. P. Lehn			
P. Littmann		❍	❍

● = 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. This requirement may also 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 2008, 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 has 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 cross involvement among the Board Members and the boards of directors of other listed Swiss or foreign companies. There is no service contract between any Member of the Board and the Company providing for benefits upon termination of employment.

In accordance with the Transaction Agreement with BASF, an Extraordinary General Meeting was convened on December 2, 2008, in which the shareholders elected as new Board Members, effective April 9, 2009, the date of closing of the Transaction, Hans-Ulrich Engel, Hans-Walther Reiners and Jörg Buchmüller. On the same date, the current Board Members resigned. None of the newly elected Board Members 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]. All of the newly elected Board Members have management positions in the BASF Group.

The Executive Committee

Information on the Members of the Executive Committee [DCG 4.1]

Brendan Cummins became Chief Executive Officer on January 1, 2008. 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 UK 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 and became Chief Operating Officer on October 1, 2005. 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.

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.

Thomas Engelhardt was appointed Head of Coating Effects Segment in January 2008. Thomas Engelhardt joined Ciba-Geigy Grenzach in Germany in 1987 as Process Development Chemist, and headed the department Process Development & Quality Assurance in 1989. In 1993 Thomas Engelhardt was appointed Head of Marketing & Business Development for Ciba Service Production, and two years later Head of the Business Center Paper, located in Switzerland, with global responsibility for paper whiteners. In 1999, he transferred to Japan as Head of the Consumer Care Division and Business Unit Home & Personal Care, North East Asia, including regional responsibility for some major key accounts such as Procter & Gamble and Johnson & Johnson. In 2001 Thomas Engelhardt became Head of Technical Operations for Water & Paper Treatment, taking charge of a network of 13 production & formulation sites worldwide. In 2003 he was appointed Global Head of Process & Lubricant Additives as well as Head of Plastic Additives NAFTA, based in Tarrytown, US.

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
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
James McCummiskey	None
Thomas Engelhardt	None
Giordano Righini	None

Functioning of the Executive Committee

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, 2009 [DCG Introduction 8]

Effective April 15, 2009, Brendan Cummins stepped down as CEO and Michael Heinz from BASF was appointed as CEO of the Company. Between January 1, 2009 and April 15, 2009, Niklaus Meier had assumed, in addition to his current position as Head of Group Control, the responsibilities of Jürg Fedier, the former CFO, who left the Company on December 31, 2008. On April 15, 2009, Hans-Jürgen Seeger was appointed as the new CFO of the Company. Giordano Righini, Head of the Plastic Additives Segment, retired effective December 31, 2008, and John Frijns assumed the responsibilities of Giordano Righini. In addition, he continues to lead the Industry Platform Plastics.

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 as measured against a comparative group of companies, 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 counterproductive 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 2008 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. Except for the Chairman of the Board, 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 level of payout of the variable cash components depends entirely on the achievement of a defined operating income (EBIT) target and is cancelled or reduced if the relevant target is not met. On target level, the cash component of the compensation would reflect, as a percentage of the annual base salary, 50 percent for the CEO and 40 percent for the other members of the Executive Committee. As the Company did not meet its operating income (EBIT) target, there is no payout of the variable cash element (Bonus) for the reporting year 2008.

Starting 2008, the long-term incentives for Members of the Executive Committee were governed by the new Ciba Equity Plan (CEP), according to which half of the share allocation is 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.

However, as a consequence of the Public Tender Offer of BASF to acquire the Company, the performance share unit allocation has been converted into share rights calculated on the basis of 100 percent of the base allocation to be paid out as cash compensation at the closing of the Public Tender Offer.

The Company does not allocate options to either the Board of Directors or the Members of the Executive Committee with the exception of the share rights granted as a consequence of the Public Tender Offer of BASF under the variable portion of the CEP described above.

For details regarding the total compensation paid out in 2008 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 9 to the Financial Statements of Ciba 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 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 Holding Inc. is the ultimate holding company of the Ciba Group. Its shares are listed on the SIX Swiss Exchange, traded on SWX Europe, and its American Depositary Shares ("ADSs") traded on the New York Stock Exchange until July 20, 2007.

As at December 31, 2008, the Company's market capitalization amounted to CHF 3 223 011 360 (67 146 070 shares at a price of CHF 48 each).

Security	Stock Exchange	Ticker Symbol	Security Number	Isin Code
Share with CHF 1 nominal value	SIX/SWX Europe	CIBNE	4604230	CH 0046042302
Share with CHF 1 nominal value	SIX/SWX Europe	CIBN	581972	CH 0005819724

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
March 2, 2006	1	69 064 617	4	4	4	4	2	2
March 8, 2007	1	69 064 617	4	4	4	4	2	2
March 7, 2008	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 Holding Inc. [DCG 1.2]. Updated information can be retrieved from the SIX 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 2008, 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 2008, 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].

In accordance with the Transaction Agreement with BASF, an Extraordinary General Meeting was convened on December 2, 2008, in which the shareholders passed a resolution to change Articles 5, 15 and 19 of the Articles of Association of the Company resulting in the abolishment of the above voting cap registration restrictions. The changes in the Articles of Association took effect on the closing of the Transaction on April 9, 2009.

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 in 2009, the Company will publish the date of the AGM, the deadline date and the record date for participation at the AGM on its website. Persons who have become shareholders after the record date 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,
- (viii) the resolution on merger, demerger and conversion if such quorum is necessary pursuant to the Swiss Merger Act, or
- (ix) the dissolution of the Company.

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	2.50	0
2009(i)	0	0

(i) For the financial year 2008, payment of a dividend is not allowed under the Transaction Agreement with BASF. The Board of Directors will therefore not propose a dividend to the Company's shareholders.

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].

Auditors [DCG 8]

The Company's auditors are Ernst & Young AG, Zurich. They have been elected by the shareholders at the AGM 2008 until the AGM 2009 [DCG 8.1.1].

Ernst & Young AG's lead audit partner, Martin Mattes, has supervised the Company's audit since 2008 [DCG 8.1.2]. Fees paid by the Company in 2007 and 2008 to its auditors were as follows [DCG 8.2/8.3]:

	2008		2007	
	Thousand CHF	In % of total fees	Thousand CHF	In % of total fees
Audit fees	7 617	92%	6 761	92%
Audit-related fees	436	5%	337	4%
Tax fees	274	3%	284	4%
All other fees	0	0%	3	0%
Total fees	8 327	100%	7 385	100%

2008 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 an automatic notification service by push-email (http://www.ciba.com/med-subscription.htm).

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

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 also contains 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 5084 and to Group Communications +41 61 636 4444.

Management's Discussion and Analysis

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

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Year in review
2008 compared to 2007

2008 was a demanding year, with unprecedented increases in raw material prices, followed by a collapse in demand in many customer industries, especially automotive, as the economic downturn took hold towards the end of the year. Despite these challenges, the Company increased sales prices and reduced the cost base considerably. In September, the Board of Directors recommended to accept the public tender offer from BASF for CHF 50 per share to buy the Company. This offer was accepted by shareholders and the transaction is expected to close in the first quarter of 2009.

Results of operations

	2008	2007
Net sales	**5 919**	6 523
Gross profit	**1 574**	1 874
Operating income before restructuring, impairment and other charges [(i)]	**308**	552
Restructuring, impairment and other charges [(i)]	**(735)**	(118)
Operating income (loss)	**(427)**	434
Income (loss) from continuing operations	**(565)**	220
Income from discontinued operations, net of tax	**1**	17
Net income (loss)	**(564)**	237
Earnings (loss) per share, basic and diluted:		
Continuing operations	**(8.44)**	3.27
Discontinued operations	**0.02**	0.26
Net income (loss) per share	**(8.42)**	3.53

Other data

	2008	2007
Depreciation and amortization	**325**	357
Net cash provided by continuing operations	**231**	501
Free cash flow	**26**	300
Net debt	**2 038**	1 913
Shareholders' equity at year-end	**1 648**	3 305
Dividend per share [(ii)]	**0.00**	2.50

Key performance ratios

	2008	2007
Net sales development	**(9)%**	3%
Net sales development in local currencies	**(3)%**	2%

Expressed as a percentage of sales

	2008	2007
Gross profit	**26.6%**	28.7%
Operating income before restructuring, impairment and other charges [(i)]	**5.2%**	8.5%
Operating income (loss)	**(7.2)%**	6.7%
Income (loss) from continuing operations	**(9.5)%**	3.4%
Net income (loss)	**(9.5)%**	3.6%

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

[(ii)] The Board of Directors proposes no dividend payment to the Company's shareholders in 2009. The per share amounts presented above for 2007 reflect the CHF 2.50 per share dividend that was paid in 2008, based on 2007 results.

Executive summary

2008 Operational performance

2008 was a challenging year for the specialty chemicals industry, with the first half characterized by unprecedented increases in raw material prices and demand dropping dramatically at the end of the year, as the economic downturn took hold. Despite this difficult business environment, the Company was able to significantly reduce its cost base and increase sales prices, offsetting much of the impact of higher raw material costs experienced during the year.

The Company continued to achieve 2007 sales levels in local currencies up until the end of the third quarter, however in the last two months of the year, demand dropped sharply in a number of customer industries, notably plastics and coatings for the automotive and construction industries. Overall, sales were 3 percent lower than 2007 in local currencies, and 9 percent lower in Swiss francs, as the U.S. dollar remained relatively weak against the Swiss franc and the British pound lost considerable value at the end of the year.

In Europe, sales were 8 percent lower in local currencies than 2007, while sales in the Americas held up better, just 2 percent below 2007 levels, with a particularly strong performance in Water & Paper Treatment. Despite growth slowing in Asia towards the end of the year, sales increased 4 percent in local currencies over 2007.

Sales prices were increased by 3 percent over 2007, which reflected a lag in increases coming through in the first part of the year, but a significant acceleration of increases in the second half. The increases did not, however, fully offset the 13 percent higher raw materials. The demand collapse late in 2008 meant volume mix declined by 6 percent from 2007. Raw material prices have started to ease in the last two months, but were still significantly higher than in the fourth quarter of 2007.

Gross profit margin was 26.6 percent, lower than the previous year, as a result of the exceptionally high raw material costs experienced in the first half of the year.

Profitability was lower than 2007, with an operating income margin before restructuring of 5.2 percent. This drop was mainly a reflection of the dramatic increases in raw material prices in the first half-year, which significantly undermined efforts to reduce the cost base of the business. It also reflects the sharp declines in demand experienced in particular in the automotive industry, that began in the fourth quarter. Plastic Additives and Coating Effects suffered the most from this collapse in demand, while Water & Paper Treatment continued to improve profitability levels, however could not fully compensate the negative operating income effect from the second quarter.

A goodwill impairment of CHF 590 million was recorded in the second quarter in the Water & Paper Treatment segment. In the first half-year, the general business climate deteriorated considerably, resulting, among other things, in higher interest rates and equity risk premiums leading to increased discount rates. In addition, the Company realized that the Segment would not reach the profitability levels as quickly as previously forecasted. As a consequence the Company was evaluating strategic options for the paper chemicals business to improve profitability. The plan to review these options was stopped when the Board of Directors recommended to accept an offer from BASF to acquire Ciba in September 2008.

As a result of the impairment, as well as the demand drop late in 2008, the Company reported a net loss of CHF 564 million (2007 net income: CHF 237 million).

Offer from BASF to acquire Ciba

On September 15, 2008 BASF made a public tender offer to acquire all publicly held shares in Ciba Holding Inc. at a price of CHF 50 in cash per share, which the Ciba Board of Directors recommended to accept.

The offer was accepted by shareholders in November, and 94.59 percent of the Company's shares are tendered to, or were acquired by, BASF. In addition, the shareholder voting restrictions were lifted at the Extraordinary General Meeting on December 2, 2008, on condition that the offer is settled. This step allowed the transaction to proceed. There are still outstanding regulatory approvals from the competition authorities required before BASF can take full control of Ciba, but these are expected to come through in time to close the transaction in the first quarter of 2009.

In the fourth quarter of 2008, the Company incurred expected expenses of CHF 39 million for this transaction which are included in Restructuring, impairment and other charges. This includes such items as advisory fees, legal, communication and fairness opinion fees and other related cost as disclosed in the Offer Prospectus, which was published on October 1, 2008.

Other than the recognition of these expenses, the Company's Consolidated Financial Statements do not include any further potential effect related to the BASF public tender offer and are presented on a standalone going concern basis.

The closing of this transaction is expected to occur in the first quarter of 2009.

Free cash flow and net debt

Free cash flow was CHF 26 million, lower than 2007 mainly as a result of the lower operating profitability in 2008. Net debt increased by CHF 125 million from CHF 1 913 million to CHF 2 038 million.

Financial review

Overview

Key developments

- Sales prices increased 3 percent, offsetting much of unprecedented raw material price increases
- Significant savings made throughout cost base
- Operational Agenda well on track to complete in 2009
- Collapse in customer demand in the last two months of the year, particularly in the automotive industry
- BASF offer for Ciba accepted by shareholders, with transaction expected to close in the first quarter

Sales development

2008 compared to 2007	
Volume/product mix	(6)%
Price	3%
Currency	(6)%
Total in Swiss francs	**(9)%**

Geographic sales distribution

	2008	2007
Europe	**44%**	46%
Americas [i]	**27%**	27%
Asia Pacific [ii]	**29%**	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

	2008	2007
Operating income before restructuring	**308**	552
Restructuring	**(735)**	(118)
Operating income (loss)	**(427)**	434
Operating income margin before restructuring	**5.2%**	8.5%

2008 compared to 2007	
Operating income before restructuring	(44)%

Sales volumes deteriorated as a result of economic downturn towards year-end

Net sales for the full year reached CHF 5 919 million, 9 percent lower in Swiss francs and 3 percent less in local currencies than the previous year (2007: CHF 6 523 million). Sales in Swiss francs were below prior year levels, reflecting the strength of the currency, as well as the global economic downturn in the fourth quarter. In local currencies, sales were flat for the first nine months of 2008 but the economic downturn following the financial crisis impacted Ciba in the last two months of the year. The Water & Paper Treatment segment increased sales by 1 percent in local currencies, while Plastic Additives was 5 percent lower and Coating Effects 7 percent lower. In 2008, Ciba was able to increase sales prices by 3 percent, offsetting much of unprecedented raw material price increases.

In Europe, sales were 8 percent lower in local currencies than 2008, while sales in the Americas held up better, just 2 percent below 2007 levels, with a particularly strong performance in Water & Paper Treatment. Despite growth slowing in Asia towards the end of the year, sales increased 4 percent in local currencies over 2007.

The currency effect for the year was 6 percent negative, with the severe drop in the British pound and weaker euro and U.S. dollar, partially offset by an increase in the Japanese yen.

Gross profit impacted by unprecedented raw material cost increases

Gross profit decreased by CHF 300 million to CHF 1 574 million, representing 26.6 percent of sales. This drop was related to the unprecedented increase in oil prices in the first half of the year which led to significantly increased raw material and utility costs. These higher raw material costs were to a certain extent offset by the 3 percent increase of sales prices, which with a time lag from the increases in the first part of the year then accelerated in the second half. The relative strength of the Swiss franc also impacted gross profit.

Selling, general and administrative expenses reduced

Selling, general and administrative expenses in 2008 were CHF 956 million, CHF 31 million below prior year but increased in intensity terms from 15.1 percent of sales in 2007 to 16.2 percent of sales in 2008. The results of the Operational Agenda program, with the new single platform of information technology now up and running and further streamlining, have contributed to favorable cost development during the year, however the reduction in sales volume in the last two months of 2008 led to the change in intensity.

Continued investment in research and development

Research and development expenses of CHF 230 million were CHF 32 million below prior year but with 3.9 percent still at the targeted level of 4.0 percent of sales.

Operating income impacted by raw material costs and economic downturn

Operating income before restructuring decreased by CHF 244 million from CHF 552 million in 2007 to CHF 308 million in 2008. This was mainly due to unprecedented increases in raw material costs. The impact was mitigated to some degree by savings in the selling, general and administrative expenses through the Operational Agenda, as well as by sales price increases. However, the crisis in the financial markets and the resultant economic downturn towards the end of the year then led to a dramatic drop in demand, which further impacted operating income.

In 2008, operating income margin before restructuring was 5.2 percent compared to 8.5 percent the previous year. Including restructuring, the operating loss amounted to CHF 427 million in 2008, compared with an income of CHF 434 million in 2007.

Income taxes
Income tax expense decreased by CHF 75 million to CHF 9 million due to significantly reduced taxable income, partly offset by effects of tax rate changes enacted in 2008.

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 such examples in 2008:

Asset impairment testing
In 2008, 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 Plastic Additives and Coating Effects segments remained higher than their respective carrying values. The goodwill of the Water & Paper Treatment segment, however, needed to be impaired as the general business climate had deteriorated, leading to, among other things, increased discount rates and it became obvious that the Segment would not reach the profitability levels as quickly as previously forecasted. As a consequence the Company was evaluating strategic options for the paper business. In the impairment testing it was shown that the carrying value of the Segment was above the calculated overall fair values which led to the goodwill impairment of CHF 590 million recorded in the second quarter.

Environmental liabilities
As shown in Notes 12 and 16 to the Consolidated Financial Statements, the Company's environmental liabilities decreased during 2008. This occurred mainly because of continued spending for remediation of existing sites, mostly at Toms River in the U.S. and at Bonfol, Switzerland. For the latter the existing provisions had to be reassessed and adapted based on new evidence gathered during the detailed remediation planning. There were no new incidents or other events during 2008 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, the liability for the funded status (difference between pension plan assets and projected plan liabilities) increased by CHF 440 million from CHF 433 million at year-end 2007 to CHF 873 million in 2008. The change resulted from a CHF 961 million decrease in pension plan assets which was partially offset by a CHF 521 million decrease in pension plan liabilities. The decrease in pension plan assets was driven by the fall of stock markets during 2008 because of the global financial crisis. The liability decrease occurred mainly because rates used to discount pension liabilities to present value were increased, reflecting the increase during 2008 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,	2008	2007
Cash and cash equivalents and short-term investments	**412**	666
Total assets	**6 912**	8 788
Total shareholders' equity	**1 648**	3 305

Cash and cash equivalents and short-term investments decreased due to debt repayments, capital expenditures and dividend payments that were only partially offset by operating cash flows. Total assets decreased primarily due to lower current assets, the amortization of property, plant and equipment, the goodwill impairment in the Water & Paper Treatment segment and the currency impact. The decrease in shareholders' equity mainly resulted from the net loss from the impairment as well as currency translation adjustments, cash dividends and increases in pension-related liabilities.

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 net borrowings decreased to 4.35 percent in 2008 compared with 4.67 percent of total borrowings in 2007, reflecting the repurchase of high yielding debt in October 2007, the global decline in interest rates during the year, as well as the weaker U.S. dollar, euro and British pound against the Swiss franc. Interest expense increased by CHF 16 million over prior year, which was more than 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 increased by CHF 9 million, mostly due to adverse foreign currency exchange results.

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

The Company's credit rating was downgraded by Standard & Poor's from BBB to BBB- on August 20, 2008. The Moody's rating is maintained at Baa2. Both rating agencies have put any rating review on hold due to the proposed takeover of Ciba by BASF.

Net debt

The table below shows the components of net debt at December 31, 2008 and 2007:

Net debt	2008	2007
Short-term debt	**796**	599
Long-term debt	**1 654**	1 980
Total debt	**2 450**	2 579
Cash and cash equivalents	**(410)**	(665)
Short-term investments	**(2)**	(1)
Net debt	**2 038**	1 913

The decrease in total debt resulted mainly from the scheduled repayment of a CHF 400 million bond in April 2008 and the repayment of USD 83 million Industrial Revenue Bonds, partially compensated by issuance of loan notes, long-term loans and increased borrowings under the syndicated loan facility. 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. However, some of the Company's debt arrangements, including committed credit lines, contain a change of control clause which would potentially enable the lenders to cancel the agreements and any outstanding debt to become payable before its scheduled maturity. 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

	2008	2007
Net income (loss)	**(564)**	237
Income from discontinued operations, net of tax	**(1)**	(17)
Depreciation and amortization	**325**	357
Restructuring, impairment and other charges, net of restructuring payments	**634**	42
Net change in operating assets and liabilities	**(126)**	(158)
Other, net	**(37)**	40
Net cash used in discontinued operations	**(5)**	(7)
Net cash provided by operating activities	**226**	494

Cash flows from investing activities

	2008	2007
Capital expenditures	**(249)**	(268)
Sale (acquisition) of businesses, net of cash	**(26)**	(29)
Proceeds from sale of assets	**15**	115
Loans and other long-term assets	**(68)**	(122)
Net cash used in investing activities	**(328)**	(304)

Cash flows from financing activities

	2008	2007
Increase in short-term debt, net	**268**	16
Proceeds from long-term debt	**324**	99
Repayments of long-term debt	**(540)**	(428)
Dividends paid and treasury stock transactions	**(168)**	(250)
Net cash flows used in financing activities	**(116)**	(563)

Free cash flow

	2008	2007
Net cash provided by continuing operations	**231**	501
Restructuring payments, net [i]	**97**	74
Net cash used in continuing investing activities	**(328)**	(304)
Sale/acquisition of businesses, net of cash	**26**	29
Free cash flow	**26**	300

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

Cash flows

Free cash flow was CHF 26 million, lower than 2007 mainly as a result of the lower operating profitability in 2008. Net debt increased by CHF 125 million from CHF 1 913 million to CHF 2 038 million.

Cash flows used in investing activities increased by CHF 24 million. The reduction in capital expenditure for 2008 by CHF 19 million and reduction by CHF 54 million through changes in loans and other long-term assets could not match the cash inflow in proceeds from sale of assets of CHF 115 million in 2007 which was mainly related to sale-leaseback of buildings.

Cash flows used in financing activities were lower than in prior year mainly due to the higher net inflow in short and long-term financing transactions and lower dividend and treasury stock payments.

Historically, the Company has utilized free cash flow to maintain short-term debt at relatively 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

Segment overview
Plastic Additives

(All references to operating income are before restructuring)

Overview

Key developments

- Demand for plastics reduced considerably in second half
- Sales volumes 6% lower than 2007
- U.S. and Europe significantly affected by economic downturn, but Asia following
- Profitability impacted by unprecedented raw material cost increases in first half
- New antioxidant plant in Singapore in start up phase

Operating income

	2008	2007
Operating income	**154**	323
As a percentage of sales	**8.0%**	14.9%

Sales development

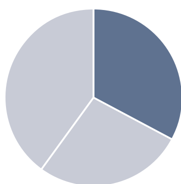
2008 compared to 2007	
Volume/product mix	**(6)%**
Price	**1%**
Currency	**(6)%**
Total in Swiss francs	**(11)%**

Asset management

	2008	2007
Net current operating assets:		
Absolute in CHF	**432**	463
As a percentage of sales	**22%**	21%
Capital expenditures in CHF	**121**	132
Invested capital in CHF	**1 255**	1 363
Total assets in CHF	**1 548**	1 699

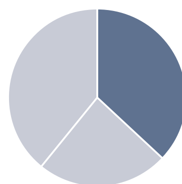
Sales

33%



Operating income

37%



Sales development

Sales in local currencies for the Plastic Additives segment were 5 percent below previous year. Good volume growth of 4 percent in the first half was undermined by volume declines in the second half, as demand for plastic additives reduced considerably. Compared with the previous year, volume/mix was down 6 percent, while sales prices increased 1 percent.

The economic downturn in the second half heavily impacted sales in Base Polymers and Polymer Products. In addition these two business lines were suffering from competitors in Asia taking advantage of the weak U.S. dollar. Process and Lubricant Additives experienced strong growth in 2008 with increased sales to global package houses and oil companies. After a weak start to 2008, with changes in order pattern and some destocking in the industry, Home and Personal Care resumed normal growth levels towards the end of the year.

Sales in local currencies increased in Africa and Middle East, South and Central America. However, the other regions did not reach previous year's level.

Operating income

Operating income was impacted by the unprecedented raw material and energy price increases which could only partly be compensated by higher selling prices that came through in the second half. It was also impacted to some degree by the drop in demand experienced in the fourth quarter. The Operational Agenda restructuring measures, however, again had a strong positive effect on production cost. Selling, general and administrative expenses as well as investments in research and development activities were slightly lower than prior year.

Asset management

Net current operating asset intensity was slightly above prior year level. Lower receivables compensated for changes in inventory and payables. The significant capital expenditures are mainly due to the continued construction of the new antioxidant manufacturing plant in Singapore, which is nearing completion and scheduled to begin commercial production in March 2009.

Segment overview
Coating Effects

(All references to operating income are before restructuring)

Overview

Key developments

- Economic downturn severely impacted demand, particularly in automotive and construction industries
- High margin levels maintained for the first nine months, but fourth quarter heavily affected by demand collapse
- Sales prices increased 3 percent, mostly offsetting raw material increases
- Significant operational cost reductions achieved

Operating income

	2008	2007
Operating income	**158**	219
As a percentage of sales	**9.8%**	11.9%

Sales development

2008 compared to 2007	
Volume/product mix	**(10)%**
Price	**3%**
Currency	**(6)%**
Total in Swiss francs	**(13)%**

Asset management

	2008	2007
Net current operating assets:		
Absolute in CHF	**487**	546
As a percentage of sales	**30%**	30%
Capital expenditures in CHF	**66**	66
Invested capital in CHF	**1 391**	1 570
Total assets in CHF	**1 599**	1 865

Sales

27%

Operating income

39%

Sales development

Sales in the Coating Effects segment suffered from the global economic downturn, especially in the fourth quarter with the automotive industry demand collapse as well as significant declines in the construction market, and were down in local currencies by 7 percent.

Up until September segment sales in local currencies were flat, with Asia compensating for the drop in demand in Europe and the U.S., which had suffered from the automotive and construction downturn. Europe felt the downturn mainly in the construction and publication markets. However, in the fourth quarter, the Segment experienced a major drop in demand across all industries and regions, as the global economic downturn took hold and customers de-stocked.

Electronic Materials, which participated in the growth of the display market, maintained 2007 sales levels.

Coating Effects has successfully offset most raw material price increases with selling price increases. Selling prices were increased across all business lines and regions.

Operating income

Operating income is down in absolute terms and in intensity as a result of lower sales volumes, but partially offset by cost reductions. Costs were reduced more than the initially planned productivity improvements to counteract the impact resulting from the difficult economical environment.

Asset management

Net current operating assets reduced due to lower receivables and the stronger Swiss franc. Inventory was negatively impacted by significantly higher raw material costs and reduced global demand. In the second quarter an inventory reduction program was launched which led to significant volume reductions. Payables are lower than last year in value and intensity, reflecting the impact of the inventory reduction program.

Segment overview
Water & Paper Treatment

(All references to operating income are before restructuring)

Overview

Key developments

- Strong sales growth in Asia and the Americas, slower in Europe
- Sales price increases of 6 percent offset lower volume mix
- Profitability levels were close to 2007 levels, although raw material cost increases in second quarter were not fully offset
- Rigorous cost control showing positive results on cost base

Operating income

	2008	2007
Operating income	**96**	116
As a percentage of sales	**4.0%**	4.6%

Sales development

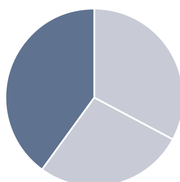
2008 compared to 2007	
Volume/product mix	**(5)%**
Price	**6%**
Currency	**(7)%**
Total in Swiss francs	**(6)%**

Asset management

	2008	2007
Net current operating assets:		
Absolute in CHF	**509**	565
As a percentage of sales	**21%**	22%
Capital expenditures in CHF	**60**	63
Invested capital in CHF	**1 860**	3057
Total assets in CHF	**2 163**	3428

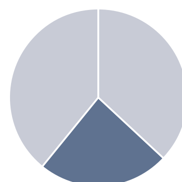
Sales

40%



Operating income

24%



Sales development

Sales in local currencies increased by 1 percent in 2008, with price increases implemented successfully and good growth particularly in the Water Treatment business.

Sales in local currencies increased over the prior year with growth in Asia Pacific and the Americas more than offsetting a decline in Europe. In Europe, sales growth was impacted by the continued consolidation of the paper industry and in the latter part of the year by extended downtimes at many paper mills.

Operating income

Operating income was close to previous year, with sales price increases not fully offsetting the increased raw material prices. Profitability measures implemented in 2007 delivered cost savings throughout 2008 and minimized the impact of the difficult business environment. Gross profit decreased in absolute terms, but remained stable in intensity. Strong cost control measures resulted in lower production costs and selling, general and administrative expense.

Asset management

Net current operating assets were below prior year levels – driven by stringent management of receivables and more effective management of inventory with increased raw material costs being offset by positive currency development. Capital expenditures remained at similar levels to prior year as the Segment continued its focus on profitability improvement and less on growth. Net fixed assets decreased, which when combined with the impairment of the goodwill 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	2008	2007
Net sales		**5 919**	6 523
Cost of goods sold		**(4 345)**	(4 649)
Gross profit		**1 574**	1 874
Selling, general and administrative		**(956)**	(987)
Research and development		**(230)**	(262)
Amortization of other intangible assets	9	**(80)**	(73)
Restructuring, impairment and other charges	23	**(735)**	(118)
Operating income (loss)		**(427)**	434
Interest expense		**(151)**	(135)
Interest income		**56**	34
Other financial expense, net		**(33)**	(24)
Income (loss) from continuing operations before income taxes and minority interest		**(555)**	309
Provision for income taxes	15	**(9)**	(84)
Minority interest		**(1)**	(5)
Income (loss) from continuing operations		**(565)**	220
Income from discontinued operations, net of tax [i]	4	**1**	17
Net income (loss)		**(564)**	237
Earnings (loss) per share, basic and diluted	20		
Continuing operations		**(8.44)**	3.27
Discontinued operations		**0.02**	0.26
Net income (loss) per share		**(8.42)**	3.53
Weighted average shares outstanding, basic and diluted (in millions)		**67.0**	67.1

(i) Includes for income from discontinued operations, net of tax: CHF 1 million tax expense for 2008 and CHF 23 million tax benefit for 2007

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	2008	2007
Assets			
Current assets			
Cash and cash equivalents		**410**	665
Accounts receivable, net	5	**618**	896
Inventories	6	**1 325**	1 315
Prepaid and other current assets		**479**	464
Total current assets		**2 832**	3 340
Property, plant and equipment, net	7	**2 125**	2 426
Goodwill	8	**659**	1 503
Other intangible assets, net	9	**770**	949
Financial investments	10	**112**	118
Other assets	11	**414**	452
Total assets		**6 912**	8 788
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		**519**	638
Short-term debt	13	**796**	599
Income taxes payable		**39**	26
Accruals and other current liabilities	12	**644**	709
Total current liabilities		**1 998**	1 972
Long-term debt	14	**1 654**	1 980
Deferred income taxes	15	**99**	166
Other liabilities	16	**1 457**	1 285
Total liabilities		**5 208**	5 403
Minority interest		**56**	80
Shareholders' equity	17		
Common stock [i]		**69**	69
Additional paid-in capital		**3 944**	3 939
Retained earnings		**(420)**	311
Accumulated other comprehensive loss		**(1 782)**	(840)
Treasury stock, at cost [ii]		**(163)**	(174)
Total shareholders' equity		**1 648**	3 305
Total liabilities and shareholders' equity		**6 912**	8 788

[i] Par value CHF 1 per share, 79.1 million shares authorized and 69.1 million shares issued as of December 31, 2008 and 2007.

[ii] December 31, 2008: 1.9 million treasury shares; December 31, 2007: 2.1 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,	2008	2007
Cash flows from operating activities		
Net income (loss)	**(564)**	237
Income from discontinued operations, net of tax	**(1)**	(17)
Income (loss) from continuing operations	**(565)**	220
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**325**	357
Deferred income taxes	**(51)**	14
Restructuring, impairment and other charges	**735**	118
Restructuring payments	**(101)**	(76)
Gain on sale/disposal of assets, net	**(8)**	(15)
Minority interest and other non-cash items, net	**22**	41
Changes in operating assets and liabilities:		
Accounts receivable, net	**202**	(6)
Inventories	**(145)**	(91)
Accounts payable	**(58)**	90
Other operating assets and liabilities	**(125)**	(151)
Net cash provided by continuing operations	**231**	501
Net cash used in discontinued operations	**(5)**	(7)
Net cash provided by operating activities	**226**	494
Cash flows from investing activities		
Capital expenditures	**(249)**	(268)
Proceeds from sale of assets	**15**	115
Sale (acquisition) of businesses, net of cash [(i)]	**(26)**	(29)
Loans and other long-term assets	**(68)**	(122)
Net cash used in investing activities	**(328)**	(304)
Cash flows from financing activities		
Increase in short-term debt, net	**268**	16
Proceeds from long-term debt	**324**	99
Repayments of long-term debt	**(540)**	(428)
Dividends paid	**(168)**	(201)
Treasury stock transactions	**0**	(49)
Net cash used in financing activities	**(116)**	(563)
Effect of exchange rate changes on cash and cash equivalents	**(37)**	11
Net decrease in cash and cash equivalents	**(255)**	(362)
Cash and cash equivalents, beginning of year	**665**	1 027
Cash and cash equivalents, end of year	**410**	665
Supplemental cash flow information		
Cash paid for interest	**(152)**	(157)
Cash paid for income taxes	**(47)**	(73)

[(i)] 2008 and 2007 include disbursements for acquisitions of businesses, net of cash acquired, of CHF 25 million and CHF 9 million, respectively. 2007 includes disbursements totaling CHF 33 million attributable to the divestment in 2006 of the Textile Effects business.

See Notes to consolidated 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)	Total
Balance at December 31, 2006		69	3 929	280	(928)	(136)	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 [i]				(201)			(201)
Treasury stock transactions	17		6			(38)	(32)
Other			4	(5)			(1)
Balance at December 31, 2007		**69**	**3 939**	**311**	**(840)**	**(174)**	**3 305**
Net loss				(564)			**(564)**
Currency translation adjustments					(593)		**(593)**
Pension and post-retirement plan funded status adjustment, net of tax of CHF (126)					(343)		**(343)**
Other					(6)		**(6)**
Comprehensive loss				(564)	(942)		**(1 506)**
Cash dividends declared and paid [i]				(168)			**(168)**
Treasury stock transactions	17		(3)			11	**8**
Other			8	1			**9**
Balance at December 31, 2008		**69**	**3 944**	**(420)**	**(1 782)**	**(163)**	**1 648**

[i] Cash dividend declared and paid in 2008 was CHF 2.50 per share and in 2007 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 Holding Inc. (formerly 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.

Notes to consolidated financial statements

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

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 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 2008, the Company recorded an impairment charge of CHF 590 million related to its Water & Paper Treatment reporting unit (see Note 8 and 23).

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 which qualify and are designated as fair value hedges, changes in the fair values of the derivative financial instrument are recognized currently in earnings. The changes in fair value of the hedged item are recognized currently in earnings and 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 which qualify and are designated 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 Other financial expense, net. 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 Other financial expense, net. 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 do not qualify or are not designated 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 recorded on an undiscounted basis. 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.

Fair value measurements

In 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). In addition to expanding disclosures about fair value measurements, SFAS No. 157 defines fair value and establishes a hierarchy prioritizing the inputs to valuation techniques used to measure fair value into three broad levels: Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant

Notes to consolidated financial statements

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

other observable inputs and Level 3 uses significant unobservable inputs. In accordance with FASB Staff Position 157-2, Effective Date of SFAS No. 157 ("FSP 157-2") the adoption of SFAS No. 157 for non-financial assets and liabilities that are fair valued on a non-recurring basis is deferred to 2009.

Reclassifications

Certain reclassifications to the 2007 financial statements and related footnote amounts have been made to conform to the 2008 presentation.

2. Business segment and geographic data

Year ended December 31,	2008	2007
Net sales		
Plastic Additives	**1 930**	2 161
Coating Effects	**1 604**	1 837
Water & Paper Treatment	**2 385**	2 525
Total net sales	**5 919**	6 523
Operating income before restructuring, impairment and other charges		
Plastic Additives	**154**	323
Coating Effects	**158**	219
Water & Paper Treatment	**96**	116
Corporate and other expenses	**(100)**	(106)
Total operating income before restructuring, impairment and other charges	**308**	552
Operating income margin before restructuring, impairment and other charges		
Plastic Additives	**8.0%**	14.9%
Coating Effects	**9.8%**	11.9%
Water & Paper Treatment	**4.0%**	4.6%
Operating income margin before restructuring, impairment and other charges	**5.2%**	8.5%
Restructuring, impairment and other charges [(i)]		
Plastic Additives	**21**	17
Coating Effects	**14**	24
Water & Paper Treatment	**598**	26
Corporate	**102**	51
Total restructuring, impairment and other charges	**735**	118

Year ended December 31,	2008	2007
Depreciation and amortization		
Plastic Additives	**92**	96
Coating Effects	**106**	110
Water & Paper Treatment	**124**	148
Corporate	**3**	3
Total depreciation and amortization	**325**	357
Operating income (loss)		
Plastic Additives	**133**	306
Coating Effects	**144**	195
Water & Paper Treatment	**(502)**	90
Corporate and other expenses	**(202)**	(157)
Total operating income (loss)	**(427)**	434
Operating income (loss) margin		
Plastic Additives	**6.9%**	14.2%
Coating Effects	**9.0%**	10.6%
Water & Paper Treatment	**(21.0)%**	3.6%
Operating income (loss) margin	**(7.2)%**	6.7%
Research and development		
Plastic Additives	**89**	96
Coating Effects	**87**	100
Water & Paper Treatment	**31**	41
Corporate	**23**	25
Total research and development	**230**	262
Capital expenditures		
Plastic Additives	**121**	132
Coating Effects	**66**	66
Water & Paper Treatment	**60**	63
Corporate	**2**	7
Total capital expenditures	**249**	268

[(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.

December 31,	2008	2007
Total assets		
Plastic Additives	**1 548**	1 699
Coating Effects	**1 599**	1 865
Water & Paper Treatment	**2 163**	3 428
Shared operating assets not allocated to segments (ii)	**655**	553
Non-operating assets (iii)	**947**	1 243
Total assets	**6 912**	8 788
Net assets		
Plastic Additives	**1 255**	1 363
Coating Effects	**1 391**	1 570
Water & Paper Treatment	**1 860**	3 057
Shared operating net assets not allocated to segments (ii)	**359**	305
Non-operating net assets (iii)	**513**	912
Invested capital (iv)	**5 378**	7 207
Items not included in invested capital	**(3 730)**	(3 902)
Total shareholders' equity (total net assets)	**1 648**	3 305
Components of items not included in invested capital		
Net deferred tax liabilities	**233**	42
Short-term debt	**(796)**	(599)
Long-term debt	**(1 654)**	(1 980)
Other liabilities	**(1 457)**	(1 285)
Minority interest	**(56)**	(80)
Total items not included in invested capital	**(3 730)**	(3 902)

(ii) Shared operating assets not allocated to segments and shared operating net 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 assets and non-operating net 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-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 Plastic Additives segment 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, highperformance motor oils, industrial lubricants and home and personal care products. The Segment's service business provides customers with product application solutions.

The Coating Effects segment 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 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 Water & Paper Treatment segment 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.

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Year ended December 31,	2008	2007
Net sales to customers		
Europe		
Germany	**520**	597
United Kingdom	**225**	265
Italy	**249**	281
France	**320**	361
Rest of European Union [i]	**1 089**	1 220
Switzerland	**73**	87
Rest of Europe	**129**	148
Total Europe	**2 605**	2 959
Americas		
United States of America	**1 016**	1 159
Canada	**153**	195
Central America	**114**	118
South America	**297**	302
Total Americas	**1 580**	1 774
Asia Pacific		
Japan	**393**	396
China Region	**447**	441
Rest of Asia	**547**	602
Australia and New Zealand	**134**	136
Africa and Middle East	**213**	215
Total Asia Pacific	**1 734**	1 790
Total net sales to customers	**5 919**	6 523

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

December 31,	2008	2007
Long-lived assets		
Europe		
Germany	**249**	276
United Kingdom	**216**	338
Italy	**160**	177
France	**91**	102
Rest of European Union [i]	**162**	203
Switzerland	**332**	351
Rest of Europe	**1**	0
Total Europe	**1 211**	1 447
Americas		
United States of America	**461**	515
Canada	**3**	5
Central America	**40**	57
South America	**14**	20
Total Americas	**518**	597
Asia Pacific		
Japan	**14**	19
China Region	**163**	161
Rest of Asia	**214**	194
Australia and New Zealand	**5**	8
Africa and Middle East	**0**	0
Total Asia Pacific	**396**	382
Total long-lived assets	**2 125**	2 426

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.

3. Exchange rates of principal currencies

			Statement of income average rates		Balance sheet year-end rates	
			2008	2007	**2008**	2007
1	U.S. dollar	(USD)	**1.08**	1.20	**1.06**	1.14
1	British pound	(GBP)	**1.99**	2.40	**1.53**	2.25
1	Euro	(EUR)	**1.59**	1.64	**1.49**	1.66
100	Japanese yen	(JPY)	**1.04**	1.02	**1.17**	1.02

4. Acquisitions and discontinued operations

Acquisitions

There were no significant acquisitions during 2008 or 2007.

Discontinued operations

Income from discontinued operations, net of tax, includes the following:

Divestment of Textile Effects business

On June 30, 2006 the Company sold its Textile Effects business 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 costs, net of tax, being reported in discontinued operations during that year. In 2008, the Company earned CHF 1 million of other income, net of tax, attributable to the divested Textile Effects business.

Divestment of Performance Polymers business

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.

5. Accounts receivable

	2008	2007
Accounts receivable	**648**	928
Allowance for doubtful accounts	**(30)**	(32)
Total	**618**	896

6. Inventories

	2008	2007
Raw materials	**159**	176
Work in process and finished goods	**1 166**	1 139
Total	**1 325**	1 315

Work in process and finished goods are shown after deducting allowances for obsolete, slow-moving and lower of cost or market adjustments of CHF 35 million as of December 31, 2008 and CHF 38 million as of December 31, 2007.

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7. Property, plant and equipment

Changes in the components of property, plant and equipment and accumulated depreciation for the years ended December 31, 2008 and 2007 were as follows:

	2008					2007
	Land	Buildings	Machinery and equipment	Construction in progress	Total	Total
Cost at January 1,	**110**	**1 486**	**4 867**	**278**	**6 741**	6 834
Additions	0	2	16	231	**249**	268
Retirements/disposals	(2)	(5)	(49)	(1)	**(57)**	(180)
Currency adjustments	(11)	(148)	(522)	(29)	**(710)**	(79)
Other [(i)]	0	6	75	(123)	**(42)**	(102)
Cost at December 31,	**97**	**1 341**	**4 387**	**356**	**6 181**	6 741
Accumulated depreciation at January 1,		**(809)**	**(3 506)**		**(4 315)**	(4 258)
Depreciation		(42)	(203)		**(245)**	(284)
Accumulated depreciation on retirements/disposals		2	44		**46**	115
Currency adjustments		71	367		**438**	47
Other [(i)]		2	18		**20**	65
Accumulated depreciation at December 31,		**(776)**	**(3 280)**		**(4 056)**	(4 315)
Net book value at December 31,	**97**	**565**	**1 107**	**356**	**2 125**	2 426

[(i)] In 2008, 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, partially offset by restructuring-related impairments (see Note 23).

The insurance value of the property, plant and equipment was approximately CHF 8 474 million at December 31, 2008 and CHF 9 532 million at December 31, 2007.

8. Goodwill

Changes in the carrying amount of goodwill by segment for the years ended December 31, 2008 and 2007 were as follows:

	December 31, 2007	Acquisitions	Impairment [(i)]	Foreign currency translation and other adjustments	December 31, 2008
Plastic Additives	73	2	0	(13)	**62**
Coating Effects	230	18	0	(51)	**197**
Water & Paper Treatment	1 200	0	(590)	(210)	**400**
Total	1 503	20	(590)	(274)	**659**

	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

[(i)] Relates to the goodwill impairment of the Water & Paper Treatment segment (see Note 23).

9. Other intangible assets

Other intangible assets by major class consist of the following:

December 31, 2008	Gross carrying value	Accumulated amortization	Net carrying value
Developed technology and know-how	828	(243)	**585**
Patents	82	(42)	**40**
Trademarks and tradenames	33	(10)	**23**
Other	211	(89)	**122**
Total	**1 154**	**(384)**	**770**

December 31, 2007			
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

During 2008, the Company acquired CHF 55 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. The implementation was completed in 2008 and the costs are being amortized over a twelve year period.

Amortization of other intangible assets in 2008 amounted to CHF 80 million (2007: CHF 73 million). For amortizing other intangible assets, based on the values at December 31, 2008, estimated future annual amortization expense is expected to be as follows: 2009: CHF 74 million; 2010: CHF 66 million; 2011: CHF 64 million; 2012: CHF 59 million; 2013: CHF 57 million; 2014 and thereafter: CHF 446 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:

	2008		2007	
	Book value	Fair value	Book value	Fair value
Long-term debt, including current portion	**2 012**	**1 913**	2 395	2 304

The fair value of publicly traded long-term debt is estimated using quoted market prices (CHF 1 344 million in 2008). 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 (CHF 569 million in 2008).

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 are reflected at their book value. Quoted market prices are not available for investments in equity affiliates.

Financial investments

	2008	2007
Investments in equity affiliates	**104**	106
Investments in unconsolidated companies	**8**	12
Total financial investments	**112**	118

The most significant investment in equity affiliates is Compagnie Industrielle de Monthey SA ("CIMO"). The investment in CIMO represents CHF 70 million as of December 31, 2008 and CHF 72 million as of December 31, 2007. The investment interest in CIMO is maintained at 50 percent for 2008 and 2007.

The following table presents as of December 31, 2008 and 2007, summarized financial information on a 100 percent basis for investments in companies accounted for using the equity method.

	2008	2007
Sales	**79**	92
Income before taxes	**0**	1
Net income (loss)	**(1)**	0
Total assets	**85**	91
Shareholders' equity	**197**	199

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 exposure with respect to interest rates. 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.

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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.

As of December 31, 2008, net derivative instruments recorded at fair value are net assets of CHF 69 million. The fair value of these derivative instruments is determined using significant other observable inputs and the market approach.

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.

Information with respect to fair value hedges

In 2008, the Company entered into an interest rate swap (swap from fixed to floating) that is designated as a fair value hedge of CHF 100 million of its 3.25 percent fixed interest rate on the CHF 225 million bond due 2012.

In 2007, the Company entered into interest rate swaps (swap from fixed to floating) that are designated as fair value hedges of EUR 300 million of its 4.875 percent fixed interest rate EUR 477 million unsecured notes due 2018.

None of these fair value hedges was ineffective in 2008 and 2007.

Information with respect to cash flow hedges

In 2008, the Company entered into natural gas forward contracts that are designated as cash flow hedges to minimize its exposure to increases in natural gas prices in certain locations. Current open contracts hedge forecasted purchases of natural gas until December 2009.

2008, the Company entered into a cross currency swap with a third-party financial institution that is designated as a cash flow hedge to effectively fix in Singapore dollar the future cash flows for both interest and principal payments on underlying GBP 31 million debt. Both the underlying debt and the swap mature in 2012.

In 2007 and 2006, the Company entered into cross currency interest rate 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.

None of these cash flow hedges was ineffective in 2008 and 2007.

Information with respect to other derivative financial instruments

At December 31, 2008, the fair value of other derivative financial instruments not designated as accounting hedges was a net asset of CHF 62 million (2007: net asset of CHF 22 million), consisting of CHF 83 million included in prepaid and other current assets (2007: CHF 38 million) and CHF 21 million included in accruals and other current liabilities (2007: CHF 16 million). The fair value of these derivative financial instruments was determined using significant other observable inputs and the market approach.

11. Other assets

	2008	2007
Prepaid pension costs	**70**	217
Deferred taxes	**281**	163
Loans to third parties and equity affiliates	**13**	8
Other	**50**	64
Total	**414**	452

12. Accruals and other current liabilities

	2008	2007
Payroll and employee benefits	**96**	133
Taxes other than income taxes	**32**	46
Interest	**44**	49
Rebates	**27**	40
Restructuring provisions	**33**	42
Environmental remediation and compliance	**78**	49
Retirement and postemployment benefits	**31**	35
Deferred income taxes	**51**	68
Forward contracts and options	**56**	16
Other	**196**	231
Total	**644**	709

13. Short-term debt

	2008	2007
Bank overdrafts	**233**	5
Loans	**108**	75
Other [(i)]	**97**	104
Current portion of long-term debt [(ii)]	**358**	415
Total	**796**	599

[(i)] Other includes employee and retiree deposits totaling CHF 81 million at December 31, 2008 and CHF 100 million at December 31, 2007.

[(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 equivalent. 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, 2008 CHF 200 million of borrowings are outstanding under these facilities. As of December 31, 2007, there were no borrowings outstanding. Unused short-term credit lines totaled CHF 836 million at December 31, 2008.

The weighted average interest rate for short-term debt (excluding the current portion of long-term debt) calculated at December 31, 2008 was 3.0 percent and 4.0 percent at December 31, 2007.

14. Long-term debt

Long-term debt	2008	2007
Bonds and euro medium-term notes	**1 439**	2 083
Amounts owed to credit institutions	**373**	232
Other long-term debt	**200**	80
Total	**2 012**	2 395
Current portion of long-term debt	**(358)**	(415)
Total long-term debt	**1 654**	1 980

Bonds and euro medium-term notes			2008	2007
CHF	400	3.25% Straight Bonds, principal due 2008	**0**	401
EUR	477	4.875% Unsecured Notes, principal due 2018	**749**	838
CHF	300	3.25% Straight Bonds, principal due 2009	**300**	301
CHF	225	3.25% Straight Bonds, principal due 2012	**230**	224
USD	50	5.38% U.S. Pollution Control and Industrial Development Bonds, due 2028	**53**	162
Total bonds			**1 332**	1 926
GBP	71	6.50% Euro Medium-Term Note, principal due 2013	**107**	157
Total bonds and euro medium-term notes			**1 439**	2 083

In March 2008, the Company repurchased prior to their scheduled maturity date EUR 23 million of the EUR 500 million of previously outstanding fixed rate Unsecured Notes maturing in 2018.

In August and October 2008, the Company repurchased prior to their scheduled maturity date USD 83 million of the USD 83 million of previously outstanding floating rate Industrial Revenue Bonds (refers in the table to U.S. Pollution Control and Industrial Development Bonds) maturing in 2028.

The annual maturities of long-term debt outstanding at December 31, 2008 are as follows: 2009: CHF 358 million; 2010: CHF 4 million; 2011: CHF 4 million; 2012: CHF 501 million; 2013: CHF 261 million; 2014 and thereafter: CHF 840 million.

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15. Income taxes

The provision for income taxes in 2008 and 2007 from continuing operations consists of the following:

	2008	2007
Current portion	**60**	70
Deferred portion	**(51)**	14
Total provision for income taxes	**9**	84

The Company's current income taxes for 2008 were reduced by approximately CHF 4 million (2007: CHF 37 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	2008	2007
Expected tax rate	**(30)**	30
Non-deductible items	**33**	9
Tax free income	**(1)**	(9)
Income taxed at reduced rates	**(3)**	(6)
Changes in valuation allowance	**10**	1
Other	**(7)**	2
Effective tax rate	**2**	27

Non-deductible items include the tax effect of amortization of other intangible assets and other expenses that are not deductible for tax purposes. The increase in 2008 is attributable to the non-deductible impairment of goodwill of the Water and Paper Treatment segment (see Note 23).

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 2008 includes 10 percent for additional valuation allowances on deferred tax assets that arose during 2008 in certain subsidiaries.

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.

In 2008, Other includes 3 percent for the effect of alternative taxes in certain countries that partially substitute for income taxes, (2) percent for the effect of a tax law change in the United Kingdom that decreased net deferred tax liabilities and consequently decreased income tax expense, (13) percent for an additional tax loss carryforward resulting from the writedown of two investments in subsidiaries, which was considered permanent, and 5 percent for other adjustments including the effect of actual tax rates in certain countries being different than the expected tax rate.

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

The significant components of activities that gave rise to deferred tax assets and liabilities on the balance sheet at December 31, 2008 and 2007, were as follows:

	2008	2007
Deferred tax assets		
Pensions and other employee compensation	**178**	98
Inventory	**25**	25
Restructuring, impairment and other charges	**1**	3
Environmental reserves	**84**	103
Tax loss carryforwards	**397**	310
Other	**51**	69
Gross deferred tax assets	**736**	608
Valuation allowances	**(307)**	(264)
Net deferred tax assets	**429**	344
Deferred tax liabilities		
Property, plant and equipment	**(109)**	(166)
Other	**(87)**	(136)
Gross deferred tax liabilities	**(196)**	(302)
Net deferred tax assets	**233**	42
Included in		
Prepaid and other current assets	**102**	113
Other assets	**281**	163
Accruals and other current liabilities	**(51)**	(68)
Deferred income taxes	**(99)**	(166)
Net deferred tax assets	**233**	42

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 1 415 million, of which CHF 570 million will expire in the next five years and CHF 777 million will expire between five and twenty years. The remaining carryforwards do not expire.

At December 31, 2008, unremitted earnings of subsidiaries outside of Switzerland of approximately CHF 55 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. In that year, 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 2008 and 2007 were as follows:

	2008	2007
Balance at beginning of year	**50**	83
Initial adoption of FIN 48	**–**	3
Increase related to prior year tax positions	**8**	12
Decrease related to prior year tax positions	**(5)**	(3)
Increase related to current year tax positions	**1**	3
Decrease related to current year tax positions	**0**	0
Decrease from settlements with tax authorities	**0**	(38)
Decrease from expiration of statute of limitations	**(2)**	(9)
Foreign currency translation	**(5)**	(1)
Balance at end of year	**47**	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 1998 to 2008 remain open for examination by tax authorities.

As a result of uncertain tax benefits that are expected to be taken in 2009, the Company believes it is reasonably possible that reserves could increase by CHF 5 million in 2009. As a result of the expiration of the statute of limitations, the Company believes it is reasonably possible that reserves could decrease by CHF 9 million in 2009.

16. Other liabilities

	2008	2007
Environmental remediation and compliance	**300**	377
Retirement and postemployment benefits	**976**	697
Other	**181**	211
Total	**1 457**	1 285

The environmental remediation and compliance accrual, including the current portion, decreased in 2008 by a net CHF 48 million as a result of CHF 43 million usage of the accrual (see Note 12 and 22), an increase of CHF 7 million in provisions, and a decrease related to currency effects of CHF 12 million. The environmental remediation and compliance accrual, including the current portion, decreased in 2007 by a net CHF 34 million as a result of a CHF 27 million usage of the accrual and an increase of CHF 2 million in provisions, and a decrease related to currency effects of CHF 9 million.

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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. 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 2010, 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 Extraordinary General Meeting on December 2, 2008, the shareholders resolved the cancellation of the voting right restriction in the Company's Articles of Association, subject to the closing of the public tender offer from BASF.

At the Company's Annual General Meeting on March 7, 2008, the shareholders approved a dividend payment to the shareholders of CHF 2.50 per share, based on 2007 results (2007: CHF 3 per share dividend payment). The dividend payment, which totaled CHF 168 million, was made on March 12, 2008 (2007: CHF 201 million dividends paid on March 13, 2007).

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 2008 and 2007 the Company effected the following treasury stock transactions:

In millions of shares	2008	2007
Treasury stock at January 1,	**2.1**	1.6
Purchased at market prices	**0.1**	1.5
Sold at market prices/ used for share based compensation	**(0.3)**	(1.0)
Treasury stock at December 31,	**1.9**	2.1

None of the Company's treasury stock were reserved as of December 31, 2008 and 2007.

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

	2008	2007
Currency translation adjustment	**(915)**	(322)
Pension and post-retirement related	**(864)**	(519)
Other, net of tax	**(3)**	1
Accumulated other comprehensive loss	**(1 782)**	(840)

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 322 million in 2008 (2007: CHF 199 million deferred tax benefit).

In 2008, Other, net of tax includes unrealized losses from cash flow hedges of CHF 3 million. There were no cash flow hedges in 2007.

18. Share-based compensation plans

Descriptions of the terms and activities of the Company's share-based compensation 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 2008, the Company granted 156 397 shares of common stock with a market value at date of grant of CHF 43.05 per share to 493 participants and recognized compensation expense of approximately CHF 7 million in 2008 related to these grants.

In 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 earlier years, the LTIP also provided for the granting of options to participants to purchase shares of common stock. No such options have been granted since 2004.

As a consequence of the public tender offer from BASF (see Note 24), for all granted shares of the LTIP 2006 and 2007, the selling restriction was lifted. In accordance with the provisions of the LTIP, any negative tax consequences for the beneficiaries resulting from the cancellation of the sales restrictions were expensed by Ciba and will be compensated in cash. For the LTIP 2008 all granted shares vested. The selling restriction will be lifted at closing. All remaining outstanding options were forfeited. The closing of the public tender offer from BASF is expected in the first quarter 2009.

CEP

In 2008, the Company introduced a new share-based compensation plan, the Ciba Equity Plan ("CEP"), which grants the right to receive restricted and unrestricted shares of common stock of the Company to senior management and other key employees. The CEP is split equally into a fixed and a variable portion. The fixed portion vests in the grant year. The shares are restricted for at least three years. The variable portion vests three years from the grant year and is dependent on the achievement of performance and market related targets. The shares might be restricted up to six years upon the choice of the participants. In

2008, rights were granted to 32 participants. The following table summarizes the activity of shares and share rights under the CEP during 2008:

	2008
Balance at December 31, 2007	0
Shares/share rights granted	190 582
Shares/share rights forfeited	(8 128)
Balance at December 31, 2008	**182 454**

As a consequence of the public tender offer from BASF (see Note 24) all shares granted under the fixed portion with a fair value at grant date of CHF 43.05 per right vested and have been tendered to BASF. The selling restriction of the fixed portion will be lifted at closing. The variable portion was settled at the target number of shares, with the right to receive CHF 50 per grant at closing. The closing of the public tender offer from BASF is expected in the first quarter 2009. For the CEP 2008, CHF 8 million of compensation expense was recognized.

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 of common stock at CHF 10 per share as long as the share price is not greater than CHF 150, 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 2008 and 2007:

	Exercise price	Rights outstanding
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**
Rights granted	10.00	89 145
Rights exercised	12.86	(51 855)
Balance at December 31, 2008	**12.92**	**527 725**

Compensation expense is recorded in the year the rights are granted and, in 2008, CHF 2 million (2007: CHF 4 million) of compensation expense was recorded under this plan.

Reserve of shares

At December 31, 2008 and 2007, the Company did not have any shares of treasury stock reserved for issuance under the various share-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 10 million in 2008 and CHF 13 million in 2007.

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. Following the adoption of the measurement date provisions in SFAS 158 in 2008, all plan assets and benefit obligations were measured as of December 31. In 2007, the majority of plan assets and benefit obligations were measured as of December 31.

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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.

	2008			2007		
	Funded plans	Unfunded plans	All plans	Funded plans	Unfunded plans	All plans
Change in projected benefit obligation (PBO)						
PBO, beginning of year	**3 602**	**551**	**4 153**	3 818	556	4 374
Service cost	54	8	**62**	54	10	64
Interest cost	164	27	**191**	159	26	185
Participant contributions	26	–	**26**	26	0	26
Actuarial gain	(65)	(47)	**(112)**	(149)	(29)	(178)
Plan amendments	–	–	–	0	0	0
Benefits paid	(186)	(28)	**(214)**	(210)	(28)	(238)
Foreign currency translation	(403)	(53)	**(456)**	(86)	18	(68)
Divestitures	–	–	–	(8)	0	(8)
Curtailments, settlements and other	(18)	0	**(18)**	(2)	(2)	(4)
PBO, end of year	**3 174**	**458**	**3 632**	3 602	551	4 153
Change in plan assets						
Fair value of plan assets, beginning of year	**3 720**		**3 720**	3 693		3 693
Actual return on plan assets	(435)		**(435)**	230		230
Employer contributions	92	28	**120**	85	28	113
Participant contributions	26	–	**26**	26	–	26
Benefits paid	(186)	(28)	**(214)**	(210)	(28)	(238)
Foreign currency translation	(440)	–	**(440)**	(94)	–	(94)
Divestitures	–	–	–	(6)	–	(6)
Settlements and other	(18)	0	**(18)**	(4)	0	(4)
Fair value of plan assets, end of year	**2 759**		**2 759**	3 720		3 720
PBO funded status	**(415)**	**(458)**	**(873)**	118	(551)	(433)

For 2008, the majority of the Company's funded pension plans had PBO in excess of plan assets. For 2007, approximately half 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, 2008 and 2007 of the Company's pension plans:

	2008				
	Funded plans				
	Fully-funded	Under-funded	Total	Unfunded plans	Total all plans
Accumulated benefit obligation (ABO)	787	2 193	2 980	428	**3 408**
Fair value of plan assets	917	1 842	2 759		**2 759**
ABO status – fully (under) funded	**130**	**(351)**	**(221)**	**(428)**	**(649)**

	2007				
	Funded plans				
	Fully-funded	Under-funded	Total	Unfunded plans	Total all 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)

Change of measurement date

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, as disclosed in the annual reports 2006 and 2007. The "measurement" provisions of SFAS No. 158 was adopted in the year ending December 31, 2008. As a result of this adoption, the Company recognized net of tax CHF 1 million cost in retained earnings and CHF 2 million debit in Accumulated other comprehensive income.

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, 2008 and 2007:

	2008		
	Funded plans	Unfunded plans	All plans
Pension asset included in other assets	70	0	**70**
Retirement benefits included in accruals and other current liabilities	0	(27)	**(27)**
Retirement benefits included in other liabilities	(485)	(431)	**(916)**
PBO funded status	**(415)**	**(458)**	**(873)**

	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)

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Net defined benefit plan pension expenses

The components of net pension expense for the Company's defined benefit pension plans during the years ended December 31, 2008 and 2007 were:

	Funded plans		Unfunded plans		All plans	
	2008	2007	**2008**	2007	**2008**	2007
Service cost	52	54	8	10	**60**	64
Interest cost	153	159	27	26	**180**	185
Expected return on plan assets	(184)	(185)			**(184)**	(185)
Amortization of unrecognized transition (asset) obligation	(12)	(15)	0	0	**(12)**	(15)
Amortization of prior service cost	(14)	(18)	0	0	**(14)**	(18)
Amortization of other unrecognized (gains) losses	58	86	0	1	**58**	87
Other (gains) losses recognized	10	(5)	0	0	**10**	(5)
Total net pension expense	63	76	35	37	**98**	113

Pension-related components of Accumulated other comprehensive loss

The components of net pension expense for the Company's defined benefit pension plans during the years ended December 31, 2008 and 2007 were:

	2008			
	Unrecognized net transition (asset) obligation	**Unrecognized prior service cost**	**Unrecognized actuarial (gains) losses**	**Total**
Balance – beginning of year, pre tax	**(62)**	**(118)**	**894**	**714**
Arising during year, including change in measurement date		1	516	**517**
Recognized as component of net periodic benefit cost during year	13	14	(68)	**(41)**
Balance – end of year, pre tax	**(49)**	**(103)**	**1 342**	**1 190**
Tax provision (benefit)	13	28	(364)	**(323)**
Balance – end of year, net of tax	**(36)**	**(75)**	**978**	**867**

	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

Amortization of the above unrecognized pension-related items that is expected to be recognized as components of net periodic benefit cost in 2009 are as follows: net transition asset, CHF 9 million; prior service cost, CHF 9 million; actuarial loss, CHF 50 million.

Key assumptions

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

	2008	2007
Discount (interest) rate	**4.8%**	4.6%
Rate of increase in compensation levels	**1.9%**	2.3%

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

	2008	2007
Discount (interest) rate	**4.6%**	4.3%
Rate of increase in compensation levels	**2.3%**	2.6%
Expected long-term rate of return on plan assets	**5.7%**	5.7%

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, 2008 and 2007, and the range of weighted average target plan asset allocation percentages in effect as of December 31, 2008, are as follows:

	Actual plan asset allocation percentages at December 31,		Target plan asset allocation percentages at
	2008	2007	December 31, 2008
Asset category			
Equity securities	**34%**	42%	**30% – 40%**
Debt securities	**50%**	47%	**45% – 55%**
Real estate	**11%**	9%	**15% – 25%**
Other	**5%**	2%	**0% – 5%**
Total	**100%**	100%	

At December 31, 2008 and 2007, 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			
2009	153	27	**180**
2010	155	28	**183**
2011	160	28	**188**
2012	169	29	**198**
2013	175	29	**204**
Aggregate for 2014 through 2018	951	157	**1 108**

The amount expected to be contributed by the Company to its funded defined benefit pension plans during 2009 is CHF 82 million.

Other post-retirement benefits

The Company's net liability for other post-retirement benefits at December 31, 2008 was CHF 48 million (December 31, 2007: CHF 60 million) resulting principally from the post-retirement healthcare plan in the United States. The Company's other post-retirement 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 2008 or 2007, and are not expected to require significant future annual benefit payments.

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20. Earnings per share

In 2008 and 2007, 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.

As a result of the public tender offer from BASF, all remaining outstanding stock options were forfeited in 2008. There are no future potentially issuable shares. 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, as their inclusion would have been antidilutive.

21. Related party transactions

Transactions with associated companies

Investments in equity affiliates of CHF 104 million in 2008 and CHF 106 million in 2007 are included in financial investments and are described in Note 10.

Loans receivable from equity affiliates of CHF 7 million in 2008 and CHF 2 million in 2007 are included in other assets. Included in loans receivable from equity affiliates is a loan to Compagnie Industrielle de Monthey SA, of CHF 7 million in 2008 (CHF 2 million in 2007), which bears interest at 2.25 percent (2007: 4.0 percent).

The Company had payables and accrued expenses to equity affiliates of CHF 6 million in 2008 and CHF 7 million in 2007, and short-term debt to equity affiliates of CHF 1 million in 2008 and CHF 1 million in 2007.

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: 2009: CHF 23 million; 2010: CHF 19 million; 2011: CHF 16 million; 2012: CHF 13 million; 2013: CHF 11 million; 2014 and thereafter: CHF 65 million. Rental expense amounted to CHF 37 million in 2008 and CHF 52 million in 2007.

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 had 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.

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. Significant specific contingencies are discussed in the Environmental matters and litigation matters sections below.

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, some of which are unlimited, to the purchasers of those businesses related to the past actions of the Company in the area of compliance with environmental and tax regulations. As of December 31, 2008, the Company has recorded liabilities related to other environmental indemnifications totaling CHF 25 million (December 31, 2007: CHF 25 million). Further discussion is in the Environmental matters section below. 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 financial position, cash flows or results of operations.

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.

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 two 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. In 2008, local authorities filed a lawsuit on this matter and a trial is set for 2009; however, the Company is in discussion with local authorities and expects to settle this matter prior to the trial date. 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. Currently, the infrastructure required is being set up and remediation work 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 2008, the overall project cost estimate was increased due to new evidence gathered during the detailed remediation planning. Based on this, the Company has reassessed and adopted its provisions accordingly. 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.

In the Basel region, several landfills (in Switzerland, France and Germany) contain chemical waste in smaller volumes than exist for other industrial and household wastes. These 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). The Company has

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potentially significant involvement in six of these landfills. Investigations at four of these sites have been completed and the respective competent legal authorities are deciding on the need for remediation actions at these sites. As of December 31, 2008, no remedial actions have been defined or required in a legally binding form. The Company together with two other companies has committed to voluntarily clean up certain portions of two of these sites. The remaining investigations are slightly delayed and are now expected to be completed in 2009 or later. Upon their completion, the respective competent legal authorities are expected to decide on the need for remediation actions, if any. In management's opinion, based on its current knowledge of these 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. Remediation at a few areas on the site is expected to begin in the near future. 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. These cases have been consolidated for trial. The plaintiffs are seeking medical monitoring on behalf of a class of coal preparation plant and wastewater treatment plant workers in two U.S. states due to exposure to residual acrylamide in products used at the plants that were manufactured by the Company and several other defendants. There are also a few personal injury allegations, and plaintiffs are seeking to recover compensatory and punitive damages. The first phase of the trial is expected to begin in 2009.

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 financial position, cash flows or results of operations

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 segments are: Plastic Additives CHF 60 million to CHF 70 million, Coating Effects CHF 60 million to CHF 70 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:

	Employee severance	Other costs	Total
Operational Agenda restructuring provisions			
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**
Charged to operating income	54	19	**73**
Payments/settlements	(55)	(16)	**(71)**
Balance at December 31, 2008	**18**	**9**	**27**

	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
Incurred during 2008	54	19	16	**89**
Total incurred at December 31, 2008	**107**	**41**	**52**	**200**

Operational Agenda costs incurred since inception of the project by segment were CHF 38 million for Plastic Additives, CHF 38 million for Coating Effects and CHF 34 million for Water & Paper Treatment. Operational Agenda costs incurred during 2008 by segment were CHF 21 million for Plastic Additives, CHF 14 million for Coating Effects and CHF 8 million for Water & Paper Treatment.

The Operational Agenda also includes in 2008, CHF 17 million (2007: CHF 21 million) of charges in connection with the implementation of a single platform of information technology systems.

Impairment of Water & Paper Treatment segment goodwill

During the first half of 2008, the business climate deteriorated and this resulted, among other things, in higher interest rates and equity risk premiums leading to increased discount rates. In addition, the Company realized that the Water & Paper Treatment segment would not reach the profitability levels previously forecasted. As a consequence, the Company evaluated strategic options for the paper chemicals business. These facts triggered the testing of the Segment's goodwill for impairment of its carrying value using the two-step method described in Note 1 to the Company's Consolidated Financial Statements. The first step of this testing indicated that a goodwill impairment loss was probable.

The second step of the impairment test resulted in an implied fair value of goodwill which was below its carrying value, leading to a goodwill impairment loss of CHF 590 million, recognized in the Segment's results of operations for the year 2008. The fair value of the Water & Paper Treatment segment was estimated using the expected present value of future cash flows.

Other

Also included in restructuring, impairment and other charges in 2008 are CHF 39 million of incurred and expected expenses in connection with the public tender offer from BASF (see Note 24).

24. Public offer from BASF to acquire Ciba

On September 15, 2008 BASF made a public tender offer to acquire all publicly held shares in Ciba Holding Inc. at a price of CHF 50 in cash per share, which the Ciba Board of Directors recommended to accept. It is considered probable that the closing of this transaction is expected to occur in the first Quarter of 2009. As disclosed in Note 18 and 23, certain charges in the connection with the public tender offer from BASF have been included in the financial statements.

Report of the statutory auditor on the consolidated financial statements

To the General Meeting of Ciba Holding Inc. (formerly Ciba Specialty Chemicals Holding Inc.), Basel

As statutory auditor, we have audited the accompanying consolidated financial statements of Ciba Holding Inc., which are comprised of the consolidated balance sheets as of December 31, 2008 and December 31, 2007 and the related consolidated statements of income, cash flows, shareholders' equity and notes for the years then ended (pages 41 to 67).

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ciba Holding Inc. as of December 31, 2008 and December 31, 2007, and of the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

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

Ernst & Young AG

Martin Mattes
Licensed audit expert
(Auditor in charge)

Patrick Fawer
Licensed audit expert

Zurich, February 5, 2009

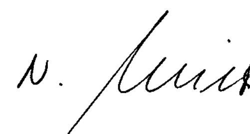
Report of management

The management of Ciba 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 according to the instructions of the Board of Directors.

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 AG, independent accountants, to examine its financial statements. Ernst & Young has confirmed that they meet the legal requirements on licensing according to the Swiss Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA). Their accompanying report is based on an examination conducted in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States.
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.



Brendan Cummins
Chief Executive Officer

Niklaus Meier
Chief Financial Officer (a.i.)

Basel, February 5, 2009

Ciba Holding Inc. financial statements

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

Statement of income	2008	2007
Financial income	**82**	194
Other income	**1**	1
Total income	**83**	195
Administrative expenses	**23**	6
Depreciation on financial investments	**9**	–
Financial expenses	**18**	15
Taxes	**3**	2
Total expenses	**53**	23
Profit for the year	**30**	172

Balance sheet	December 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents	**0**	234
Accounts receivable: subsidiaries	**643**	2
Total current assets	**643**	236
Financial investments	**2 336**	2 397
Total long-term assets	**2 336**	2 397
Total assets	**2 979**	2 633
Liabilities and shareholders' equity		
Liabilities		
Subsidiaries	**342**	74
Third parties	**230**	15
Bonds	**300**	–
Total current liabilities	**872**	89
Bonds	**–**	300
Accrued liabilities	**126**	126
Total long-term liabilities	**126**	426
Total liabilities	**998**	515
Shareholders' equity		
Common stock	**69**	69
Legal reserves		
General reserve	**1 483**	1 467
Treasury stock reserve	**33**	48
Retained earnings brought forward	**396**	534
Total shareholders' equity	**1 981**	2 118
Total liabilities and shareholders' equity	**2 979**	2 633

Notes to the financial statements of Ciba 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

	2008	2007
Guarantees for capital and interests for "Industrial Revenue Bonds"	**53**	164
Guarantees for the benefit of subsidiaries	**123**	269
Guarantees for bonds and notes for the benefit of subsidiaries	**1 708**	1 810
Total as per December 31,	**1 884**	2 243

Ciba Holding Inc. is part of the value-added tax group of the Swiss affiliated companies of Ciba 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 301 million (2007: CHF 1 051 million). The major direct and indirect investments in subsidiaries and joint ventures of Ciba Holding Inc. are listed in this Financial Review in the section "Major Consolidated Subsidiaries and Associated Companies".

5. Treasury stock (number)

	2008	2007
Treasury stock on January 1,	**2 140 808**	1 563 984
Purchased at market prices	**60 850**	1 521 209
Sold at market prices/ used for share based compensation	**(283 111)**	(944 385)
Treasury stock on December 31,	**1 918 547**	2 140 808

6. Common stock

The Annual General Meeting of the Shareholders on April 20, 1998 and on March 7, 2008 resolved the following:

Authorized increase of common stock

For a limited term, the Board of Directors is allowed to issue up to 4 million fully paid in registered shares at a par value of CHF 1 per share. This would result in an increase of the common stock by up to CHF 4 million. The Annual General Meeting of Shareholders on March 7, 2008 extended this term until March 7, 2010.

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:

	2008	2007
BASF Handels- und Exportgesellschaft mbH	**15.0%**	–
Elliott Advisors (UK) Ltd, London	**2.0%**	–
Templeton Group*	**1.5%**	8.6%
Mellon Bank N.A., Everett MA*	**1.1%**	4.5%
Nortrust Nominees, London*	**0.7%**	2.2%
Santander Nominee*	**0.1%**	6.8%

(*registered as nominees)

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

At the Company's Extraordinary General Meeting on December 2, 2008, the shareholders resolved the cancellation of the voting right restriction in the Company's Articles of Association, subject to the closing of the public tender offer from BASF.

8. Enterprise risk management

In accordance with the new Article 663b of the Swiss Code of Obligations an Enterprise Risk Management Report (ERM-Report) was done for the first time at year-end for the financial year 2008. More specifically, the underlying process used to elaborate the ERM-Report was presented as well as any significant identified areas of risk within the group. The Board of Directors took note of the ERM-Report and approved both the process to develop the ERM-Report and the content thereof.

Ciba Holding Inc. financial statements

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

9. Compensation

Total compensation to Members of the Board [CO 663b[bis] Section 1 No. 1] (Numbers printed in *(italics)* refer to 2007)

In 2008 the Members of the Board received as gross compensation a total of CHF 4 619 546 *(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	Variable No. of share rights	Contribution to pension plans and social security	Total
Armin Meyer	2 092 204	15 374 [(i)]	0	0	0	285 701	**3 083 054**
Chairman of the Board							
(2007 Chairman and CEO)	*(2 039 691)*	*(3 008)*	*(83 460)*	*(15 367)*		*(290 270)*	*(3 315 715)*
Beat Hess	15 125	7 395				15 148	**290 150**
Vice Chairman	*(13 027)*	*(3 079)*				*(13 060)*	*(250 529)*
Utz-Hellmuth Felcht	100 000	2 323				11 360	**211 365**
	(100 000)					*(5 919)*	*(105 919)*
Erwin W. Heri	137 500	3 194				15 148	**290 150**
	(137 500)	*(1 655)*				*(14 957)*	*(289 988)*
Gertrud Höhler	130 001	1 626				9 959	**209 959**
	(129 947)	*(843)*				*(9 959)*	*(209 959)*
Jean-Marie Pierre Lehn	100 000	2 323				9 959	**209 964**
	(100 000)	*(1 203)*				*(9 957)*	*(209 926)*
Peter Littmann	100 000	2 323				11 360	**211 365**
	(100 000)	*(1 203)*				*(11 166)*	*(211 135)*
Uli Sigg [(ii)]		2 323				5 685	**113 539**
	(100 000)	*(1 203)*				*(11 166)*	*(211 135)*
Kurt Feller [(iii)]							
	(8 010)	*(1 829)*				*(8 675)*	*(183 255)*

(i) Includes 275 *(zero)* shares received under the Employee Participation Plan ("Mitarbeiterbeteiligung" MAB)

(ii) Uli Sigg stepped down as Member of the Board at the occasion of the Annual General Meeting for 2007, held on March 7, 2008. The compensation as shown in the above table refers to 2007, of which half was payable after the Annual General Meeting.

(iii) 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 2008 the Members of the Executive Committee received as gross compensation a total of CHF 9 122 993 *(CHF 11 268 543)*, including allocated shares *(2007 includes Armin Meyer in his role as Chairman and CEO).*

	Fixed Cash	Fixed No. of shares	Variable Cash	Variable No. of shares	Variable No. of share rights*	Contribution to pension plans and social security	Total
Members of the Executive Committee	4 247 691	40 360	0	0	40 360	1 016 885	**9 122 993**
	(6 321 811)	*(3 008)*	*(308 443)*	*(55 908)*		*(1 922 777)*	*(11 268 543)*

* Allocated on the basis of achievement of relevant business results in 2007.

The highest compensation to a Member of the Executive Committee was received by the CEO amounting to a total of CHF 2 472 705, including allocated shares in 2008, and included the following components:

Name	Fixed Cash	Fixed No. of shares	Variable Cash	Variable No. of shares	Variable No. of share rights*	Contribution to pension plans and social security	Total
Brendan Cummins, CEO	1 080 010	12 195	0	0	12 195	226 853	**2 472 705**

* Allocated on the basis of achievement of relevant business results in 2007.

(no comparison made to 2007, as 2007 included Armin Meyer in his dual role as Chairman and CEO).

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

In 2008 three *(one)* former Members of the Executive Committee who had left the Company in 2006 and 2007 respectively, received a total gross compensation in connection with their former functions as members of the Executive Committee of CHF 961 270 *(CHF 617 520)* including allocated shares and pension contributions. The payment to these former members of the Executive Committee was made in line with contractual agreements.

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

Shares or share rights are valued at their full tax value at time of grant or vesting respectively. In line with the conditions of the Ciba Equity Plan (CEP), the allocation of variable Shares and share rights under the CEP 2008 to the Chairman and the Members of the Executive Committee was calculated on the basis of achievement of relevant business results in 2007. As a consequence of the public tender offer from BASF, the number of variable share rights was fixed at target and will be settled in cash, if and when the closing of the transaction occurs.

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

There are no outstanding loans *(none in 2007)* 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 *(none in 2007)* 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 *(none in 2007)*. There are no outstanding loans to Closely Linked Persons *(none in 2007)* [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, 2008 *(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 31.12.08	Share rights 31.12.08	Shares 31.12.07
Members of the Board:			
Armin Meyer Chairman of the Board [(i)]	**115 778**		100 659
Beat Hess Vice Chairman	**10 484**		3 089
Utz-Hellmuth Felcht	**2 333**		10
Erwin W. Heri	**11 796**		8 582
Gertrud Höhler	**8 549**		6 923
Jean-Marie Pierre Lehn	**10 762**		8 439
Peter Littmann	**4 687**		2 344
Uli Sigg	**n.a.**		5 959
Members of the Executive Committee:			
Brendan Cummins, CEO [(ii)]	**31 929**	**12 195**	19 714
Jürg Fedier	**15 587**	**6 969**	8 618
Martin Riediker	**19 929**	**5 807**	14 102
Thomas Engelhardt	**6 682**	**4 646**	n.a.
James McCummiskey	**11 781**	**5 517**	6 244
Giordano Righini	**13 229**	**5 226**	8 003
Hermann Angerer	**n.a.**		14 515

(i) Armin Meyer was CEO until December 31, 2007.
(ii) Brendan Cummins took over as CEO on January 1, 2008.

With the exception of the share rights allocated under the variable portion of the CEP plan as consequence of the public tender offer from BASF, the Company has not granted any options to Members of the Board or to Members of the Executive Committee since 2002.

Ciba Holding Inc. financial statements

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

Proposed appropriation of retained earnings

	2008	2007
Retained earnings of previous year	**366**	362
Profit for the year	**30**	172
Total retained earnings	**396**	534
No distribution of a dividend (in 2007 CHF 2.50 on 66 935 637 registered shares with a nominal value of 1.00 CHF per share (excluding treasury stock)) [i]	**0**	167
Balance to be carried forward	**396**	367

[i] 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 2008 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, 2007.

Report of the statutory auditor on the financial statements

To the General Meeting of Ciba Holding Inc. (formerly Ciba Specialty Chemicals Holding Inc.), Basel

As statutory auditor, we have audited the accompanying financial statements of Ciba Holding Inc., which comprise the balance sheet, income statement, notes and proposed appropriation of retained earnings for the year ended December 31, 2008 (pages 70 to 74).

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Martin Mattes
Licensed audit expert
(Auditor in charge)

Patrick Fawer
Licensed audit expert

Zurich, February 5, 2009

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	■	■		
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 Intercipta Kimia Pratama, Jakarta	60	■	■		
PT Latexia Indonesia, Jakarta	100	■	■		
Japan					
Ciba Japan K.K., Tokyo	100	■		■	
Musashino-Geigy Company Ltd., Kitaibaraki	100	■	■		
Nippon Alkyl Phenol Co. Ltd., Tokyo	50	■	■		
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 (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 N.V., Groot-Bijgaarden	100	■			
Denmark					
A/S Alfred Gad, Lynge	100	■			
Finland					
Ciba Finland Oy, Raisio	100	■	■	■	■
Finnamyl Oy, Raisio	100	■	■		
France					
Ciba SA, Lyon	100	■	■	■	
Germany					
Ciba Grenzach GmbH, Grenzach-Wyhlen	100		■	■	
Ciba Holding Deutschland GmbH, Lampertheim	100				■
Ciba Lampertheim GmbH, Lampertheim	100	■	■	■	
Hungary					
Ciba Central Eastern Europe Kft., Budaörs	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 Maastricht B.V., Maastricht	100	■	■	■	
Ciba Heerenveen B.V., Heerenveen	100	■	■	■	
Ciba International, Nederland B.V. Maastricht	100				■
Ciba Treasury Services B.V., Maastricht	100				■
Spain					
Ciba Iberia S.L., Barcelona	100	■	■		

	Group Holding %	Selling	Manufacturing	Research	Services, Finance
Sweden					
AB CDM, Västra Frölunda	100	■			
Ciba Scandinavia AB, Göteborg	100	■			
Switzerland					
Ciba Inc., Basel	100	■	■	■	
Ciba International Inc., Basel	100				■
Ciba Kaisten Inc., Kaisten	100		■		
Ciba Monthey Inc., Monthey	100		■		
Ciba Schweizerhalle Inc., Muttenz	100		■		
Ciba Services Inc., Basel	100				■
Ciba Holding Inc., Basel (iii)					■
Ciba Specialty Chemicals Finance Inc., Basel	100				■
CIMO Compagnie Industrielle de Monthey SA, Monthey	50				■
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 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, 2008, was approximately CHF 58.173 million (INR 2 668.780 million). As of December 31, 2008, the Company 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 Holding Inc. is the ultimate holding company of the Ciba Group. Its Shares are listed and traded on the SWX Swiss Exchange.

Summary of selected financial data

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

	2008	2007	2006	2005	2004
Results of operations					
Net sales	**5 919**	6 523	6 352	6 035	5 630
Operating income before restructuring, impairment and other charges	**308**	552	531	509	546
Restructuring, impairment and other charges	**(735)**	(118)	(69)	(120)	(91)
Operating income (loss)	**(427)**	434	462	389	455
Income (loss) from continuing operations	**(565)**	220	259	200	236
Income (loss) from discontinued operations, net of tax	**1**	17	53	(456)	70
Loss on sale of discontinued operations, net of tax	**0**	0	(353)	0	0
Net income (loss)	**(564)**	237	(41)	(256)	306
Earnings (loss) per share, basic and diluted					
Continuing operations	**(8.44)**	3.27	3.91	3.06	3.57
Discontinued operations	**0.02**	0.26	(4.54)	(6.98)	1.07
Net income (loss) per share	**(8.42)**	3.53	(0.63)	(3.92)	4.64
Equity per share	**24.54**	49.38	47.61	58.73	62.78
Dividend per share	**0.00**	2.50	3.00	3.00	1.00
Capital reduction per share	**0.00**	0.00	0.00	0.00	2.00
Weighted average shares outstanding, basic and diluted (in millions)	**67.0**	67.1	66.2	65.3	66.1
Other data – continuing operations					
Net sales development percentage	**(9)%**	3%	5%	7%	9%
Depreciation and amortization	**325**	357	359	372	344
Operating income margin before restructuring, impairment and other charges	**5.2%**	8.5%	8.4%	8.4%	9.7%
Operating income (loss) margin	**(7.2)%**	6.7%	7.3%	6.4%	8.1%
Capital expenditures	**249**	268	236	246	245
Research and development	**230**	262	270	272	259
Personnel costs	**1 364**	1 527	1 757	1 835	1 761
Number of employees at year-end [i]	**12 467**	13 319	14 130	19 105	19 338
Balance sheet data					
Current assets	**2 832**	3 340	3 554	4 267	4 381
Property, plant and equipment, net	**2 125**	2 426	2 576	2 693	2 627
Total assets	**6 912**	8 788	9 081	10 612	10 996
Short-term debt	**796**	599	173	266	547
Long-term debt	**1 654**	1 980	2 709	2 941	2 916
Common stock	**69**	69	69	69	212
Shareholders' equity	**1 648**	3 305	3 214	3 903	4 152

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

	2008	2007	2006	2005	2004
Business segment data					
Plastic Additives					
Net sales	**1 930**	2 161	2 090	1 938	1 895
Operating income	**133**	306	312	260	224
Operating income margin	**6.9%**	14.2%	14.9%	13.4%	11.9%
Coating Effects					
Net sales	**1 604**	1 837	1 801	1 703	1 721
Operating income	**144**	195	244	226	286
Operating income margin	**9.0%**	10.6%	13.6%	13.2%	16.6%
Water & Paper Treatment					
Net sales	**2 385**	2 525	2 461	2 394	2 014
Operating income	**(502)**	90	81	128	128
Operating income margin	**(21.0)%**	3.6%	3.3%	5.4%	6.3%
Trading prices on the Swiss Exchange (price per share in CHF)					
Annual highs	**60.40**	85.80	84.95	85.00	96.14
Annual lows	**24.00**	45.30	63.30	72.51	76.70
Period end	**48.00**	52.50	81.05	85.00	86.50

Glossary of financial terms

Basic earnings per share
is defined as net income divided by the weighted average number of common shares outstanding (weighted average common shares issued less weighted average treasury shares held) during the reporting period.

Cash flows from operating activities
is the net cash provided by 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 total shareholders' equity divided by the number of common shares outstanding 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 and 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 recognized 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 receivable 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 net 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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