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# Press information

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## Financial media conference of the EMS Group

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# I. Summary

With its companies combined in **EMS-CHEMIE HOLDING AG**, the **EMS Group** with its world-wide activities in the fields of **Performance Polymers, Fine Chemicals and Engineering** presents its Group accounts as in the previous years according to the International Accounting Standards IAS. The **scope of consolidation** has experienced a small change: the America business of EMS-TOGO is no longer included in the consolidation scope (since 1 April 1997) as the company was sold to H.B. Fuller, USA, within the framework of a world-wide co-operation agreement.

In comparison with the previous year, EMS has increased **net sales revenues by 8.5 %** to CHF 1,026 million (945) and **net income after taxes by 31.0 %** to CHF 300 million (229). A disproportional **increase of net income per share by 44.0 %** to CHF 549.75 (381.85) is reported. If the scope of consolidation had remained unchanged, net sales revenues would have increased by 9.9 % over the previous year.

This **improvement of net income** can be attributed on the one hand to the better operating income, on the other hand to boosted finance income:

- **Operating income** is up by 23.8 %, which substantially surpasses the increase recorded for net sales revenues (+8.5 %). Principal causes for this development are boosted sales volumes (a consequence of the **significant economic recovery**), the **favourable currency situation** brought about by a weaker Swiss franc, the intensive **cost control measures** and determined concentration on **high-yield products**.
- **Finance income** reached the high total of CHF 175 million (+38.8 %), due to the fact that EMS sold its entire securities portfolio in the course of 1997.

As a result of the higher net income and the reduced share capital (share repurchase), **net income per share** increased disproportionally by 44.0 % to CHF 549.75 (381.85).

For the first time in the history of EMS, **sales revenues** have exceeded CHF 1 billion, of which a total of 89.2 % (90.3 %) were exported, 59.2 % (60.5 %) to EU customers, 12.2 % (14.2 %) to the USA, 11.9 % (11.0 %) to the Far East and 5.9 % (4.6 %) to other countries. Domestic sales account for 10.8 % (9.7 %) of overall EMS sales. The Group manufactured 78.1 % (75.8 %) of products in Switzerland, 14.5 % (15.1 %) at other European locations, 5.5 % (7.6 %) in the USA and 1.9 % (1.5 %) in Taiwan.

The equity ratio is 57.5 %. The **return on equity** amounted to 32.7 % in 1997, with an average of 23.4 % recorded for the past five years.
Although EMS has returned CHF 1,339 million to shareholders over the past five years by way of share repurchases, capital reductions and dividends, the Group remains highly geared. To reduce the level of overcapitalisation, the shareholders will be asked to pass a motion for a **reduction of share capital by 4.4 %** at the coming general meeting. This is to be achieved through the destruction of 24,000 previously repurchased bearer shares.

**Investments** remained on the previous year's level (CHF 70 million compared with CHF 72 million for last year), whereby the focus was primarily on capacity expansion and rationalisation measures. Broken down by countries, 89.8 % was invested in Switzerland, 5.9 % in the rest of Europe, 2.9 % in the USA and 1.4 % in Asia. As in the years before, EMS was again able to finance investment from cash flow. Free cash flow amounted to 80.2 %.

EMS employs approximately 2,700 people, including 140 apprentices. As a consequence of the co-operation agreement between EMS-TOGO and H.B. Fuller Automotive Corp., the 90 employees of EMS-TOGO, USA, are no longer included in the consolidated EMS accounts. For details of workforce development within the individual divisions of the EMS Group please refer to the annual report, page 27.

The development of sales and income is significantly more subdued in the **current business year 1998** than in 1997: net sales revenues increased by 4.7 % in the first four months, operational cash flow by 6.9 % and operating income by 7.2 %. Whilst business in Europe and the USA shows high growth rates thanks to the good general economic situation, the sales and income situation in the Far East to date shows a substantial decline as a result of the economic crisis in that region.

EMS is confident that this year's operating income will be at least on a par with that of the previous year (CHF 188 million). (Refer to the enclosed 4-month EMS Group report.)

## II. Consolidated results of the EMS Group for 1997

### 1. Key figures 1997 in comparison with the previous years

| | Business years, CHF millions | | |
|---|---|---|---|
| | 1995 | 1996 | **1997** |
| **Net sales revenue** | 923,7 | 945,2 | **1'025,9** |
| change in % against previous year | + 7,8 % | + 2,3 % | **+ 8,5 %** |
| **Total income (from production)** | 992,0 | 986,9 | **1'115,8** |
| change in % against previous year | + 9,0 % | - 0,5 % | **+ 13,1 %** |
| **Operating income *** | 137,8 | 152,1 | **188,3** |
| change in % against previous year | + 4,3 % | + 10,4 % | **+ 23,8 %** |
| in % of net sales revenue | 14,9 % | 16,1 % | **18,4 %** |
| **Finance income** | 111,8 | 126,1 | **175,0** |
| change in % against previous year | + 141,4 % | + 12,8 % | **+ 38,8 %** |
| **Net income **** | 204,2 | 229,1 | **300,1** |
| change in % against previous year | + 41,8 % | + 12,2 % | **+ 31,0 %** |
| in % of total income from production | 20,6 % | 23,2 % | **26,9 %** |
| per div.-bearing bs, adjusted (in CHF) | 325,40 | 381,85 | **549,75** |
| change in % against previous year | + 43,1 % | + 17,3 % | **+ 44,0 %** |
| **Cash flow ***** | 250,3 | 279,5 | **353,5** |
| change in % against previous year | + 35,0 % | + 11,7 % | **+ 26,5 %** |
| in % of total income from production | 25,2 % | 28,3 % | **31,7 %** |
| per div.-bearing bs, adjusted (in CHF) | 398,90 | 465,85 | **647,55** |
| change in % against previous year | + 36,2 % | + 16,8 % | **+ 39,0 %** |
| **Investments** | 82,8 | 71,8 | **70,1** |
| in % of cash flows | 33,1 % | 25,7 % | **19,8 %** |
| **Shareholders' equity** | 951,8 | 951,2 | **917,1** |
| in % of balance-sheet total | 65,0 % | 67,2 % | **57,5 %** |
| return on equity | 21,4 % | 24,1 % | **32,7 %** |
| equity per div.-bearing bs (in CHF) | 1'517,15 | 1'585,35 | **1'680,10** |
| **Number of employees on 31.12.** (without apprentices) | 2'662 | 2'658 | **2'565** |

* income before interest and taxes (EBIT)
** net income after taxes and after deduction of minority interests
*** net income plus depreciation

## 2. Development of the divisions

Net sales revenues of the divisions for 1997 are as follows:

| | 1996 CHF mil. | **1997 CHF mil.** | Change 96 to 97 in CHF | in local currency |
|---|---|---|---|---|
| **Performance Polymers** | 718 | **787** | + 9,7 % | + 2,8 % |
| **Fine Chemicals** | 137 | **153** | + 11,2 % | + 6,5 % |
| **Engineering** | 76 | **72** | - 6,0 % | - 15,0 % |
| **Others** | 14 | **14** | - 0,3 % | - 0,3 % |
| **Total EMS Group** | 945 | **1'026** | + 8,5 % | + 2,6 % |

**Remarks**

The **Fine Chemicals** and **Performance Polymers** divisions report the most satisfactory development of sales and income. These are the fields in which EMS wishes to achieve the strongest growth over the coming years. The **Engineering** division reports a further drop in sales, caused by the depressed investment climate in the Far East. In respect of China, the main market for plant contractors EMS-INVENTA, the years of booming investment in this sector have been brought virtually to an end by the significant excess capacities for synthetic fibres that have developed. The situation is aggravated by the economic crisis in the Far East, which is making it difficult for Chinese firms to export their products within the region. This unsatisfactory state of affairs will certainly continue to affect the operations of EMS-INVENTA in the current year.

# III. Share repurchase 1998/General Meeting 1998

To reduce the capitalisation level of the EMS Group, the board of directors of EMS-CHEMIE HOLDING AG will propose to the coming general meeting a reduction of the share capital of CHF 1.2 million / 4.4%: For this purpose, on 18 May 1998 EMS-CHEMIE HOLDING AG repurchased 24,000 bearer shares at a price of CHF 8,400 (a total of CHF 201.6 million), by way of public invitation and for the purpose of capital reduction through destruction.

The proposed capital reduction is in the best interest of all shareholders: operationally non-essential capital is returned to the market, all shareholders benefit equally from such profit condensation.

## IV. EMS as a global partner for the automobile industry

30 % of net sales revenues of the EMS Group (CHF 1,026 million), i.e. CHF 305 million, is generated by business with the automobile industry conducted by business units EMS-CHEMIE, EMS-TOGO and EMS-PATVAG.

| Business units operating in the automobile sector | Total sales revenues CHF million | of which in the automobile industry | |
|---|---|---|---|
| | | CHF million | in % of sales |
| Performance Polymers | | | |
| - EMS-CHEMIE | 628 | 131 | 21 % |
| - EMS-TOGO | 160 | 152 | 95 % |
| Engineering | | | |
| - EMS-PATVAG | 32 | 22 | 69 % |

EMS products are used by the automobile industry as **metal substitutes**, **adhesives**, for **protection**, **sealing** and **coating** as well as for **safety enhancement**.

The following prerequisites must be met to achieve enduring success as a supplier to the automobile industry:

- **global supply capability**
- **best price/performance ratio**
- **highest quality levels**
- **excellence in the application technology field**
- **in-depth system familiarity**
- **innovative strength**

All these requirements are met in full by EMS. In future, EMS will develop this business further and boost sales to the automobile industry.

## V. EMS as a taxpayer in Switzerland

In the period 1993 to 1997 the EMS Group paid taxes amounting to almost 200 million Swiss francs in Switzerland. These taxes break down as follows:

| | | |
|---|---|---|
| **Direct federal taxes:** | | CHF 96.53 million |
| | | |
| **State and local taxes:** | | CHF 103.13 million |
| of which in | canton Grisons | CHF 49.22 million |
| | canton Zurich | CHF 31.67 million |
| | canton Aargau | CHF 22.00 million |
| | other cantons | CHF 00.24 million |

**Conclusion:**
To provide the resources required for payment of direct federal taxes as well as state and local taxes, EMS has had to generate CHF 160,000 per working day for the tax authorities – over and above net income.

## VI. How shareholder value benefits employees

Over the past years, the EMS-CHEMIE pension fund has enjoyed exceptional investment income thanks to careful and professional management of the relevant resources. In 1996 already, 5 million Swiss francs were able to be allocated to the entitled parties (insurance holders and pension recipients). Per reference date 1 July 1998, a further 20 million Swiss francs will be allocated for the benefit of aforementioned entitled persons for the following purposes:

1. The covering capital per active insured person is to be increased by 10%, corresponding to a **pension increase of up to 10 %** for the employees currently still working for EMS.

2. The premiums will be reduced by 25 % over the coming 4 years, corresponding to an average **wage increase of 1.5 %** for the employees, and **reducing the tax burden of the company**.

3. As of 1 July 1998, every pension recipient will enjoy a **15 % higher pension** and, additionally, a one-time summer bonus of **1,000 Swiss francs**. These are the social consequences of shareholder value thinking!

## VII. Impact of defective policies on Switzerland's status as a business location:

**significantly higher energy, transport and labour costs caused by the wrong political decisions**

**Situation**
The **framework conditions** in Switzerland are consistently deteriorating as a result of flawed policies. This is having a very direct impact on the competitiveness of Switzerland as a business location, i.e. numerous companies are questioning the wisdom of investing further in this country, or are wondering whether Switzerland is still really a good choice as a business location. Over the longer term, Switzerland as a high-wage country can only maintain a strong position on the highly competitive global marketplace if the Swiss government creates the appropriate framework for business operations. **The competitiveness of Switzerland as a business location is being massively threatened by the Swiss politicians**, who intend to significantly raise the costs of energy, transport and labour. Such state measures will have a tremendous impact on Switzerland as a location for industrial operations.

**Energy**
**Today already, Switzerland has Europe's most expensive industrial electric power (approx. CHF 0.13/kWh)**. Why? Because electric power is burdened with 29 % state taxes, and because the utilities are still not adequately exposed to the forces of a genuinely free market.

**The same applies to oil, gas, coal**
In its summer session the Swiss parliament decided to push forward with the regulatory tax on non-renewable energy resources (oil, natural gas, coal), and to introduce it quickly. This tax – CHF 0.006 per kWh – will drain 1 billion Swiss francs from the economy. For EMS, it means an annual burden of CHF 1.2 million.

Additional taxes on energy will remain on the political agenda in the coming years. All political activities in this direction are motivated **primarily by fiscal considerations**, and not by ecological concerns.

Energy pricing can have an impact on location selection, particularly in cases involving new facilities for the chemical industry. In a day and age in which the energy markets are experiencing Europe-wide liberalisation, and in which energy is even gaining in significance as a factor of competition, Switzerland must not march off in the opposite direction, must not embrace policies that would represent a threat to Switzerland as a business location.

**Transport**

The vote on a **performance-related tax on HGV transports** is scheduled for September 1998. This disproportionate tax will boost production costs and thus cause further deterioration of Swiss economic competitiveness. More jobs will be at risk. The new tax will generate a bill of CHF 1.5 billion annually, addressed to Swiss trade and industry. For EMS, the new tax will mean an annual burden of CHF 1.4 million.

**Other taxes**

The petroleum tax is again the subject of discussion; any hike would have substantial financial consequences for the individual businesses. A $CO_2$ tax is tentatively scheduled for introduction after 2010, and it may be assumed that regulatory taxes will be imposed sometime in the future, thus creating additional burdens.

**Higher labour costs caused by the revised labour law**

The freshly revised labour law will impose additional costs on employers. Night work is a good example in this context: the new provisions require a 10 % time allowance on working times – corresponding to a 10 % hike in labour costs. Moreover, employers' responsibilities are extended (safety on the way to and from work, etc.), and the authorities have the power to issue additional regulations – somewhat ominous perspectives, to be sure.

**Conclusion**

Over the past years, the EMS Group has focussed its investment activities on Switzerland. EMS currently manufactures 75 % of its products in Switzerland and sells 90 % abroad. 80 % of employees work in Switzerland. Taking into account the anticipated new taxes and the associated duties, detailed investment projections for products to be sold on the American market show that **investments totalling up to 60 million Swiss francs will presumably no longer be applied in Switzerland, but will have to be implemented in the USA**. Of course, this also means that new jobs will be created not in Switzerland but in the USA. **These are the calamitous consequences of flawed political decisions!**

## VIII. Schedule

- The general meeting of EMS-CHEMIE HOLDING AG will be held on 22 August 1998 in Domat/Ems
- 8-month report 1998: end of September 1998
- Report on the annual results 1998 for the EMS Group: March 1999