

MEDIA INFORMATION

EMS Group: annual results for 2003

- **Net sales on the level of the previous year**
- **Operating income slightly higher than 2002**
- **Focus on operational growth**

1. Summary

With its companies combined in EMS-CHEMIE HOLDING AG and with global activities in the fields of **Performance Polymers**, **Fine Chemicals** and **Engineering**, the EMS Group reports **net sales** on the level of the previous year and slightly higher **operating income** for the business year 2003. This result exceeds expectations by a small margin. The high earnings level was maintained in the face of a difficult market environment.

Compared with the previous year, **net sales** in local currencies rose by 1.7%; sales in Swiss francs – CHF 1'221 million (1'221) – remained roughly on the level of 2002. In an identical scope of consolidation* the net sales increase in Swiss francs would be +1.5% (+3.2% in local currencies).

Operating income (**EBIT**) was boosted to CHF 197 million (195), i.e. by 1.3% over the previous year. **EBITDA** increased by 1.6% to CHF 266 million (261). The **EBIT margin** was thus 16.2% (16.0%), the **EBITDA margin** 21.8% (21.4%). These margins lead the field in any international comparison of competitors.

Ordinary financial income reached a high CHF 171 million (19). EMS decided to fully write down the securities (in particular the financial participation in LONZA) in the profit and loss account at market value on 31.12.03. This has caused a revaluation of securities of CHF -230 million. **Financial income after value adjustments** thus amounts to CHF -58 million.

Net income for the year after deducting taxes, minority interests and this value adjustment hence amounts to CHF 107 million (161).

Shareholders' equity increased to CHF 1'441 million (1'289) with an equity ratio of 46.2% (40.7%) and is thus within the target range.

The **EMS strategy for the future** assigns top priority to operational growth by way of speciality products, in particular in the field of Performance Polymers. Although EMS continues to operate on the foundation of extremely solid capital resources, financial income will in future be afforded lower priority. The **LONZA** investment will therefore be continued as a purely financial investment with no strategic bearing. The stake in Lonza – 22.5% at the end of 2003 – has in the meantime been reduced to 19.5%.

On a comparable basis, EMS expects net sales and operating income (EBIT) for 2004 to rise slightly over the level of the previous year.

*) Changes to the scope of consolidation against the previous year: sale of the business unit POWER STATIONS at the end of 2002; conversion of the minority interest in Changchun EFTEC Chemical Products Ltd. (China) into a majority interest per beginning of 2003.

2. Development of income 2003: key figures

Business years, CHF millions	2003	2002
Net sales	1'221	1'221
change	-0.0%	-2.5%
change in local currencies	+1.7%	+2.8%
Operational cash flow (EBITDA) ¹⁾	266	261
change	+1.6%	+1.2%
in % of net sales	21.8%	21.4%
Operating income (EBIT) ²⁾	197	195
change	+1.3%	+19.3%
in % of net sales	16.2%	16.0%
Ordinary financial income	171	19
change	+801.0%	-71.0%
Financial income after value adjustments	-58	19
Income taxes	26	49
change	-47.5%	-4.4%
Net income ³⁾ (after value adjustments)	107	161
change	-33.6%	-8.7%
in % of net sales	8.8%	13.2%
per div.-bearing registered share in CHF	4.10	6.17
change	-33.6%	-8.7%
Cash flow ⁴⁾	405	227
in % of net sales	33.2%	18.6%
Investments	71	71
in % of cash flow	17.4%	31.4%
Shareholders' equity	1'441	1'289
in % of balance-sheet total	46.2%	40.7%
balance-sheet equity ratio	7.4%	12.5%
equity per div.-bearing reg. share in CHF	55.23	49.40
change	+11.8%	-10.3%
Number of employees on 31.12.	2'637	2'702

¹⁾ EBITDA = Earnings before interest, taxes, depreciation and amortization
= operational cash flow

²⁾ EBIT = Earnings before interest and taxes
= operating income

³⁾ Net income = profit after taxes less minority interests

⁴⁾ Cash Flow = net income plus write-downs plus value adjustments on securities and financial investments

3. Capsule remarks on the development of net sales and income

3.1 Net sales

EMS reports an increase in net sales in local currencies of 1.7% over the previous year. Expressed in Swiss francs, **net sales** totalled CHF 1'221 million (1'221) and were hence on the level of the previous year. This must be attributed primarily to the weakness of important foreign currencies against the Swiss franc. Assuming an identical scope of consolidation, the increase in net sales in Swiss francs would amount to +1.5% (+3.2% in local currencies).

Exports contributed 94.5% (92.0%) to net sales: 62.8% (58.3%) to the EU, 9.4% (10.2%) to North America, 17.1% (18.6%) to the Far East and 5.2% (4.9%) to other countries. EMS sales within Switzerland amounted to 5.5% (8.0%) of net sales.

EMS continues to produce the bulk of its products in Switzerland: 64.4% (66.1%). 22.1% (19.9%) were made in the EU, 4.4% (4.8%) in the USA and 9.1% (9.2%) in Asia.

3.2 Slightly higher operating income

As expected, the entire year 2003 was characterised by sluggish global economic development, reticence on the investment front and negative currency influences. EMS therefore focused on strict cost discipline and flexibility in the exploitation of opportunities on the (sales and raw materials) markets. This made it possible to boost **operating income (EBIT)** by 1.3% over the previous year to CHF 197 million (195) despite unchanged net sales and negative currency influences.

3.3 Negative financial income due to value adjustments

The **financial income** as reported by EMS shows the gains **realised** during the fiscal year on securities and financial investments. This **ordinary financial income** (before value adjustments) amounted to a high CHF 171 million (19) for the 2003 fiscal year.

In respect of the 2003 accounts EMS additionally decided to write down all securities and financial investments (in particular the LONZA financial investment) at market value 31.12.2003. This extraordinary value adjustment reduced ordinary financial income by CHF 230 million. **Financial income after value adjustments** thus amounts to CHF -58 million.

3.4 LONZA holding as a financial investment

The **LONZA** investment is being continued purely as a non-strategic financial investment. Consequently, EMS will in future not be represented on the LONZA board of directors. Mr. Peter Matter will hence not stand for re-election at the LONZA Group general meeting on 31 March 2004. The 22.5% stake in LONZA held at the end of 2003 has in the meantime been reduced to 19.5%. Consequently, equity consolidation will not be applied to the LONZA investment.

3.5 Shareholders' equity

Shareholders' equity amounts to CHF 1'441 million (1'289), i.e. 46.2% (40.7%), and is hence within the target range. This increase in shareholders' equity was brought about primarily by the high level of ordinary income (before value adjustments) generated for 2003. The value adjustment that has now been applied in the profit and loss account had only a minor impact on shareholders' equity due to the fact that the major portion had already been accounted for in equity in the previous year.

3.6 Investments

Capital expenditure on physical assets amounted to CHF 71 million in 2003 (71). 75.3 % (87.4%) of this total was invested in Switzerland, 10.5% (7.9%) in the EU, 2.6% (2.0%) in the USA and 11.6% (2.7%) in Asia. Funds deployed in the report year served the following purposes: capacity increases 52.8%, replacement and rationalisation 10.3%, qualitative technical improvements 30.9%, environmental protection and safety 6.0%.

As in the previous years, the investment volume of CHF 71 million was smoothly financed from own resources thanks to the extraordinarily high 2003 **cash flow** of CHF 405 million (227). The fact that a high free cash flow is generated in good as well as in difficult years may be seen as one of the enduring strengths of the EMS Group. In the past year, this **free cash flow** reached the extraordinarily high level of CHF 334 million (156), corresponding to 82.6% (68.6%) of the overall cash flow.

4. Development of net sales and income in the individual business areas

Business year, in CHF millions	2003	% change on prev. year	% change on prev. year in local curr.
Net sales			
EMS Group	1'221	-0.0%	+1.7%
- Performance Polymers	929	+5.6%	+8.0%
- Fine Chemicals	192	-6.6%	-6.5%
- Engineering	100	-26.7%	-26.6%
EBITDA ¹⁾			
EMS Group	266	+1.6%	
in % of net sales	21.8%		
- Performance Polymers	187	+5.8%	
in % of net sales	20.1%		
- Fine Chemicals	54	+18.1%	
in % of net sales	28.2%		
- Engineering	25	-36.8%	
in % of net sales	24.6%		
EBIT ²⁾			
EMS Group	197	+1.3%	
in % of net sales	16.2%		
- Performance Polymers	148	+6.8%	
in % of net sales	16.0%		
- Fine Chemicals	34	+11.8%	
in % of net sales	17.6%		
- Engineering	15	-41.1%	
in % of net sales	15.2%		

1) EBITDA = Earnings before interest, taxes, depreciation and amortization
= operational cash flow

2) EBIT = Earnings before interest and taxes
= operating income

5. Capsule remarks on the individual business areas

In the **Performance Polymers business area**, growth as planned was achieved in all fields in spite of the restraint displayed world-wide by industrial customers in general and the automobile industry in particular. Especially positive developments are reported for the new metal-substituting and high-temperature resistant plastics at EMS-GRIVORY and for the specialised adhesives for technical applications manufactured by EMS-GRILTECH. EMS-TOGO profited from the enduringly good developments on the Chinese automobile market.

In the **Fine Chemicals business area**, EMS-PRIMID – the leading producer of PMC hardeners – performed within the scope of expectations. EMS-DOTTIKON (the exclusive synthesis specialist) felt the ongoing presence of excess capacities in this market. The remedial measures previously introduced bore initial fruit in the second half of the year.

The decline of net sales and income against the previous year in the **Engineering business area** must be principally attributed to the fact that POWER STATIONS (sold per end of 2002) is no longer contained in the 2003 figures. EMS-PATVAG developed according to plan, however with reduced thrust compared with the preceding years. Plant manufacturer INVENTA-FISCHER reports a substantially better intake of orders. However, on the market side INVENTA-FISCHER repeatedly had to deal with issues arising from customers delaying their investment projects.

6. Distribution policy for business year 2003

As already announced on the occasion of the extraordinary general meeting on 31 December 2003, and on the basis of the profit brought forward amounting to CHF 515 million, EMS plans a further high dividend of CHF 8 per share for 2004, i.e. a total of CHF 209 million.

7. Outlook

EMS anticipates a more positive general economic trend for 2004, emanating from the USA and Asia. With regard to principal market Europe, EMS continues to expect improvement on a low level, in particular in the automobile industry. The prevailing currency situation in the USA and Asia is having an unfavourable impact on EMS as a highly export-oriented business; this factor is hence an obstacle to full translation of the reported sales increases into corresponding income growth.

EMS is prepared for the upswing. Thanks to the cost-cutting drive initiated and partially implemented last year, EMS has taken an important step towards fundamental enhancement of its competitive strength. In addition, the capacities

for higher-margin products have been expanded.

The future EMS strategy envisages clear-cut growth fuelled by speciality products, in particular in the field of Performance Polymers. To ensure consistent implementation of this strategy, EMS will apply even greater efforts to the development and promotion of speciality products in 2004.

On a comparable basis, EMS expects the business year 2004 to close with net sales and operating income (EBIT) slightly above the previous year's figures.

8. Schedule

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| - First-quarter report 2004 | end of April 2004 |
| - Media conference / first-half results | 9 July 2004 |
| - General meeting 2004 | 14 August 2004 |
| - Third-quarter report 2004 | end of October 2004 |
| - Full-year results 2004 | February 2005 |