

# **Financial Report 2003 of EMS Group**



EMS-CHEMIE HOLDING AG  
Domat/Ems Schweiz

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## Consolidated Income Statement of the EMS Group

	Notes	2003 (CHF '000)	2002 (CHF '000)
Net sales revenue from goods and services	1	1 220 707	1 220 906
Inventory changes, semi-finished and finished goods		8 208	7 136
Capitalized costs and other operating income	2	94 233	109 466
<b>Operating income</b>		<b>1 323 148</b>	<b>1 337 508</b>
Material expenses	3	646 695	629 458
Personnel expenses	4	266 171	263 446
Depreciation and amortization	10, 26	68 365	66 504
Other operating expenses	5	144 613	183 237
<b>Operating expenses</b>		<b>1 125 844</b>	<b>1 142 645</b>
<b>NET OPERATING INCOME (EBIT)</b>		<b>197 304</b>	<b>194 863</b>
Income from equity-valuation of associated companies		(704)	(7 499)
Financial income	7	283 570	100 782
Financial expenses	8	341 082	74 258
<b>NET FINANCIAL INCOME</b>		<b>(58 216)</b>	<b>19 025</b>
<b>NET INCOME BEFORE TAXES AND MINORITY INTERESTS</b>		<b>139 088</b>	<b>213 888</b>
Income taxes	9	25 736	48 986
<b>NET INCOME BEFORE MINORITY INTERESTS</b>		<b>113 352</b>	<b>164 902</b>
Minority interests	19	6 475	3 954
<b>NET INCOME</b>		<b>106 877</b>	<b>160 948</b>
Earnings per registered share entitled to dividend (CHF) <sup>1)</sup>	30	4.10	6.17
Earnings per registered share (fully diluted) (CHF) <sup>1)</sup>	30	4.10	6.17
Earnings per registered share as per 31.12. (CHF) <sup>1)</sup>	30	4.10	6.17

<sup>1)</sup> All information per share figures have been restated for the share split which took place on November 3, 2003.

Notes to the Consolidated Financial Statements see on pages 12–30.

## Consolidated Balance Sheet of the EMS Group

	Notes	31.12.03 (CHF '000)	31.12.02 (CHF '000)
<b>FIXED ASSETS</b>		820 155	1 331 354
Intangible assets	10	11 278	37 313
Tangible assets	10	731 618	760 734
Financial assets	10	77 259	533 307
Investments in associated companies	10	21 153	23 926
Other investments	10	1 106	482 177
Other long-term financial assets	10	55 000	27 204
<b>CURRENT ASSETS</b>		2 297 416	1 835 581
Inventories	11	224 943	220 799
Accounts receivable			
Trade accounts receivable	12	198 703	192 639
Other receivables	13	129 717	245 237
Securities	14	382 726	380 763
Financial investments	15	807 628	0
Cash and cash equivalents	16	553 699	796 143
<b>TOTAL ASSETS</b>		3 117 571	3 166 935
<b>SHAREHOLDERS' EQUITY</b>	18	1 441 118	1 289 028
Share capital	17	261	26 093
Retained earnings and reserves		1 333 980	1 101 987
Net income		106 877	160 948
<b>MINORITY INTERESTS</b>	19	34 960	30 824
<b>LIABILITIES</b>		1 641 493	1 847 083
Long-term liabilities		1 280 708	1 407 115
Bonds	20	894 824	935 635
Bank loans	21	98 063	101 036
Other long-term liabilities	22	34 555	73 419
Deferred income taxes	23	188 533	193 607
Provisions	23	64 733	103 418
Short-term liabilities		360 785	439 968
Bank loans		58 990	127 870
Trade accounts payable		86 588	86 130
Income tax liabilities		12 597	25 844
Other short-term liabilities	24	202 610	200 124
<b>TOTAL LIABILITIES</b>		3 117 571	3 166 935

Notes to the Consolidated Financial Statements see on pages 12–30.

The Consolidated Financial Statements were approved by the Board of Directors on February 12, 2004.

## Consolidated Changes in Shareholders' Equity of the EMS Group

(CHF '000)	Share capital	Legal reserves	Free reserves	Gains / (losses) out of IAS 39	Foreign exchange differences	Retained earnings	Net income	Shareholders' equity
At 31.12.2000	26 093	70 000	10 000	0	10 141	801 068	252 738	1 170 040
Impact of first-time application of IAS 39				86 771				86 771
Revised at 1.1.2001	26 093	70 000	10 000	86 771	10 141	801 068	252 738	1 256 811
Distribution of net income						252 738	(252 738)	0
Net income							176 288	176 288
Impact of application of IAS 39				8 403				8 403
Currency translation differences					(4 221)			(4 221)
At 31.12.2001	26 093	70 000	10 000	95 174	5 920	1 053 806	176 288	1 437 281
Distribution of net income						176 288	(176 288)	0
Net income							160 948	160 948
Impact of application of IAS 39				(296 041)				(296 041)
Currency translation differences					(13 160)			(13 160)
At 31.12.2002	26 093	70 000	10 000	(200 867)	(7 240)	1 230 094	160 948	1 289 028
Distribution of net income						160 948	(160 948)	0
Dividends paid						(198 307)		(198 307)
Capital repayment by par value reduction	(25 832)							(25 832)
Net income							106 877	106 877
Impact of application of IAS 39				274 503				274 503
Currency translation differences					(5 151)			(5 151)
At 31.12.2003	261	70 000	10 000	73 636	(12 391)	1 192 735	106 877	1 441 118

	2003	2002
Balance sheet equity ratio	46.2%	40.7%

Legal reserves include KCHF 52 (2002: KCHF 5219) not being allowed to be distributed.

The proposal of the Board of Directors for the profit distribution of EMS-CHEMIE HOLDING AG, whose financial year will be closed on April 30, 2004, was communicated on December 31, 2003.

For further information and data refer to page 3, "Spotlight on share performance".

## Consolidated Cash Flow Statement of the EMS Group

	Notes	2003 (CHF '000)	2002 (CHF '000)
Net income		106 877	160 948
Minority interests	19	6 475	3 954
Depreciation and amortization of intangible and tangible fixed assets	10, 26	68 365	66 504
Capitalized costs	2	(19 617)	(12 258)
(Profit)/loss from disposal of tangible fixed assets	2, 5	(1 473)	2 007
Increase/(decrease) of other long-term provisions	23	(927)	46 915
Increase/(decrease) of other long-term liabilities		69	1 185
(Gain)/loss from sale of group companies	2	(48 902)	(82 103)
(Income)/expenses from the equity-valuation of associated companies, net after dividends	10	704	7 499
Impairment securities	8	115 569	0
Impairment financial investments	8, 26	114 071	0
Value adjustments financial assets	10, 26	1 364	27 388
Unrealized currency translation differences		1 556	(13 440)
Interests, net	7, 8	36 296	52 283
Dividends from securities in current assets	7	(3 338)	(6 349)
Dividends from associated companies and other companies	7	(12 775)	(21 819)
Income from sale of securities	7, 8	(163 018)	(31 640)
Expenses for income taxes	9	25 736	48 986
<b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>		<b>227 032</b>	<b>250 060</b>
Cash flow from changes in working capital excluding cash and cash equivalents		(5 986)	71 916
Taxes paid		(44 177)	(59 821)
Interests received		16 875	18 451
Interests paid		(55 597)	(51 801)
Dividends received	7	16 113	28 168
Provisions used	23	(38 407)	(1 162)
<b>CASH FLOW FROM OPERATING ACTIVITIES A</b>		<b>115 853</b>	<b>255 811</b>
(Purchase) of intangible and tangible fixed assets	2, 10	(50 952)	(59 221)
Disposal of intangible and tangible fixed assets	2, 5, 10	35 391	1 331
(Purchase)/disposal of financial assets	10	(508 108)	118 336
(Purchase)/disposal of marketable securities		324 717	(139 322)
(Purchase)/sale of fully consolidated companies	27	17 100	97 279
<b>CASH FLOW FROM INVESTING ACTIVITIES B</b>		<b>(181 852)</b>	<b>18 403</b>
Dividends paid		(198 307)	0
Capital repayment by par value reduction		(25 832)	0
Dividends paid to minorities	19	(2 199)	(2 627)
(Increase)/decrease of interest-bearing assets		152 529	(152 724)
Increase/(decrease) of interest-bearing liabilities	25	(101 866)	536 509
<b>CASH FLOW FROM FINANCING ACTIVITIES C</b>		<b>(175 675)</b>	<b>381 158</b>
<b>CHANGE OF CURRENCY TRANSLATION D</b>		<b>(1 237)</b>	<b>9 704</b>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C + D)</b>		<b>(242 911)</b>	<b>665 076</b>
Cash and cash equivalents at beginning of the year		796 135	131 059
(Decrease)/increase of cash and cash equivalents		(242 911)	665 076
Cash and cash equivalents at year-end	16	553 224	796 135

Notes to the Consolidated Financial Statements see on pages 12–30.

## Notes to the Consolidated Financial Statements of the EMS Group

### Consolidated accounting principles

#### General

The consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows of the EMS Group in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They also comply with the law.

The preparation of consolidated financial statements and related disclosures in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for allowances for uncollectible receivables, inventory obsolescence, depreciation, taxes, provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

#### Scope of consolidation

The scope of consolidation includes all companies in and outside Switzerland which are controlled – directly or indirectly – by EMS-CHEMIE HOLDING AG, holding more than 50% of the voting rights, or by contracts or other agreements (see list of subsidiaries and minority interest, pages 26 to 29). Not included

are companies with a charitable character (such as housing co-operatives).

Joint ventures where the parties have joint control are included at the equity method of accounting. This method is also applied for the associated companies, which are not directly or indirectly controlled by EMS-CHEMIE HOLDING AG (shareholding normally between 20% and 50% of voting rights).

Shares in other companies (less than 20% of voting rights) are valued at their market value (fair value).

#### Method of consolidation

The financial statements of majority-owned companies are fully consolidated. Assets and liabilities, income and expenses are incorporated in full and the minority interests in shareholders' equity and net income are separately disclosed in the consolidated balance sheet and consolidated income statement. Capital consolidation is effected using the Anglo-Saxon purchase method, under which all assets and liabilities of the acquired company are valued according to the accounting principles of the EMS Group at the time of acquisition. Any positive difference between the resulting shareholders' equity and the cost of acquisition is capitalized as goodwill and amortized over its expected useful life using the straight-line method. Results for acquired companies are included in consolidation as from the date of acquisition.

In case of disposal of companies, the deconsolidation is effected through the income statement at the date of the disposal, whereas the companies' results are included in the consolidation up to this date.

Intercompany transactions and relations have been eliminated in the course of consolidation. Unrealized profits from intra-group deliveries are eliminated in the income statement.

#### Balance sheet date

The balance sheet date is December 31. Subsidiaries with a different year-end closing not exceeding three months are included in the consolidation based on this closing. If the year-end differs more than three months, an interim closing is prepared as of December 31.

#### Valuation principles

Consolidated financial statements are based on historical costs except for securities and other investments as well as derivative financial instruments which are valued at fair value. Valuation principles remained unchanged from previous year.

#### Intangible fixed assets

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This item mainly consists of capitalized project costs and of goodwill acquired in acquisitions since January 1, 1995. Amortization periods of goodwill have been determined individually, with due regard for the benefit. The maximum useful life applied is 20 years. Yearly, an impairment test is performed. Organization

and foundation costs are not capitalized. Amortization of other intangible fixed assets (mainly capitalized project costs, patents and software) is calculated on a straight-line method based on their useful lives.

#### Tangible fixed assets

Tangible fixed assets are shown at purchase price or manufacturing cost less economically required depreciation. Assets are depreciated using the straight-line method over their estimated useful lives. Useful lives are estimated in terms of the asset's physical life expectancy, corporate policy on asset renewals and technological and commercial obsolescence.

The value of the capitalized fixed assets is periodically reviewed and a provision is set up for permanent impairment, if considered necessary.

Repairs and maintenance are expensed as incurred. Investments in improvements or renewals of assets are capitalized if they significantly extend service life, increase capacity or provide a substantial improvement of the quality of production performance.

Assets held under leasing agreements which may be considered as an asset purchase in economic terms (finance leases) are capitalized as tangible fixed assets at their estimated present value of the underlying lease payments and depreciated over their useful lives or the shorter leasing period. Leasing commitments are shown under financial liabilities. Financing costs are charged to the income statement

over the leasing period in such a manner that the periodic costs are correct.

Payments on leased assets defined as "operating leases" and having a rental character are expensed over the lease period.

Depreciation periods are as follows:

- Land: normally not depreciated
- Plant under construction: normally not depreciated
- Buildings: 25 – 50 years
- Technical plant and machinery: 7 – 25 years
- Other tangible fixed assets 5 – 15 years

#### Financial assets within fixed assets

Shares in associated companies are included using the equity method.

The valuation of the other investments – which mainly contained up to 2002 the shareholding in Lonza Group AG – is the same as described at "securities". Since 2003 shareholding in Lonza Group AG has been shown as a financial asset within current assets (see additional comments at "financial assets within current assets").

#### Inventories

Inventories used for production are valued at their historical purchase or production cost (including attributable manufacturing overheads) or at their realizable market value, whichever is lower. Inventories are valued using the "fifo"-method (first-in, first-out). Long-term contract work-in-progress is valued using the "Percentage-of-Completion method" (PoC).

#### Accounts receivable and accrued income

This item is valued at its nominal value less provisions for bad debts. Provisions are either based on specifically known risks or on historical default rates.

#### Securities

Securities include marketable securities traded on stock exchanges. Initial measurement of all security transactions is done at the date of fulfillment of the contract (Settlement date accounting) at cost value. Subsequent measurement is done at market value (fair value). Subsequent changes in the market value (fair value) are included within equity and are only shown in the income statement at the moment of the sale (classification as "available for sale"). In case of a significant impairment on the market value, the net loss on a security is recognized in income statement. According to the guidelines of the EMS Group a significant impairment exists if the market value (fair value) of securities is 30% under the cost value for a period of twelve months. Management decides if the loss has to be considered as being permanent if the loss in market value (fair value) is less than 30% or has been lasting for less than twelve months.

#### Financial assets within current assets

Since 2003 shareholding in Lonza Group AG has been shown as a financial asset within current assets. The valuation is the same as described at "securities".



#### Cash and cash equivalents

Liquid assets include cash on hand, bank account balances and short or medium-term deposits maturing within twelve months.

Liquid assets are valued at their nominal value.

Cash and cash equivalents disclosed in the cash flow statement include liquid assets with a maturity of less than three months.

#### Bonds and long-term bank loans

Debenture bonds and long-term bank loans are recognized initially at the proceeds received, net of transaction cost incurred. In subsequent periods, debenture bonds and long-term bank loans are stated at amortized cost using the effective yield method. Exchangeable bonds are split into a liability component and an option component at date of issue and are separately shown in the balance sheet. The fair value of the liability component is determined on the basis of the present value of the principal plus the present value of the interests payable over the contractual period using a rate of interest applied by the market at that time. At date of issue the value of the option component results by deduction of the liability component from the proceeds of the bond issue. The option component is valued at fair value in the following years and is booked into income statement.

#### Liabilities and deferred income

This item includes short and long-term debts, valued at the amount of repayment, and deferred income.

#### Provisions

Provisions are set up for legal or other liabilities if these liabilities will most probably bring along a cash outflow and if the amounts can be reliably estimated.

#### Pension funds

All subsidiaries in Switzerland dispose of their own, legally independent pension plans, being independently managed. They are financed through contributions from employers and employees. Present and former employees (or their surviving dependants) will receive benefits upon reaching the age limit and/or in the event of invalidity or death. For the purposes of the consolidated financial statements, future pension obligations are calculated on the basis of actuarial methods complying with IFRS. In the case of defined benefit obligations, the present value of the projected benefit obligation is assessed using the projected unit credit method on the basis of completed and expected years of service, the expected pay trend and the adjustment of pensions. Cost for this provision ("Expense Recognized in the Income Statement") are calculated annually and carried to income statement. In case of changes in pension plans or corrections due to new actuarial assumptions, the changes are spread forward over the remaining service life of employees. Employees of subsidiaries abroad are insured by governmental institutions or independent defined contribution pension plans.

#### Derivative financial transactions

Initial measurement of all derivative financial transactions is done at the date of transaction (Trade

date accounting) at cost value. Subsequent measurement is done at market value (fair value) within accrued income and deferred income respectively. Realized foreign exchange gains and losses are shown within the operating income.

#### Net sales revenue

Net sales revenue includes the invoiced amounts for supplied goods and services less diminished proceeds and the amount of profits as defined by the progress accomplished on long-term construction contracts. The amount of profit is determined on a pro rata basis of overall engineering estimates according to the "percentage-of-completion" method (PoC), on which the profit realized is calculated with regard to the progress achieved. Such costs cover all direct and indirect costs incurred for the projects. Only the Group's own added value is taken into account. Income is defined as being realized on delivery and services rendered respectively.

#### Research and development costs

With the exception of those development projects capitalized in accordance with IAS 38, research and development costs are charged to the income statement for the year in which they originate under the following headings: wages and salaries, material expenses, amortization on research and development assets and research and development overheads. Research and development assets being used over a long period of time are classified under "plant and machinery" and are amortized over the estimated period of economic use.

## Foreign currency translation

Financial statements in foreign currencies are translated into Group currency as follows: current assets, fixed assets and liabilities at year-end exchange rates, equity at historical exchange rates. All items in the income statement and the net income are translated using the average exchange rate of the year. These exchange rate differences are carried to equity without affecting net income (translation adjustment).

In case of disposal of a subsidiary abroad, the translation difference, accumulated during the period the subsidiary was a consolidated company, is added to profit (or loss) from sale of this company.

The foreign currency positions in the financial statements of the consolidated companies are translated as follows: foreign currency transactions with the exchange rate of the transaction day. At year-end the balances of foreign currencies are translated with the exchange rate prevailing at year-end. The differences are recognized in the income statement (transaction gains and losses).

The most important exchange rates are:

		Average exchange rates		Year-end exchange rates		
		Unit	2003	2002	2003	2002
US dollar	USD	1	1.345	1.556	1.240	1.387
Euro	EUR	1	1.520	1.469	1.560	1.454
Pound sterling	GBP	1	2.197	2.333	2.205	2.223
Japanese yen	JPY	100	1.156	1.242	1.160	1.170
Swedish krona	SEK	100	16.67	16.01	17.15	15.87
Taiwan dollar	TWD	100	3.899	4.516	3.650	3.988

## Income taxes

Provisions for deferred income taxes pay due regard to the impact in income tax terms of the differences in the valuation of assets and liabilities for Group consolidation purposes and for local taxation purposes. These provisions are continuously adjusted to take account of any changes to local fiscal law. Provisions for deferred taxation are set up using the comprehensive liability method, under which provisions are set up for all temporary differences. Tax losses carried forward are not deducted from deferred income taxes unless it can be shown with sufficient certainty that the future taxable profit is adequate to offset such a loss.

Taxes on income from foreign Group companies which is expected to be distributed to the parent company have been pro-

vided for. Provisions have not been set up for non-repatriated income invested for an unlimited period of time, or for income that can largely be transferred tax-free to the parent company. Tax expenses include income taxes on the profits of companies consolidated using the equity method.

## Earnings per share

The "earnings per share" figure is based on the consolidated net income divided by the weighted average number of shares.

## Consistency

The principles of valuation, consolidation and classification remained unchanged from previous year.

## Segment reporting

Segment reports are primarily presented by business area and secondarily by geographical region. For the business area assignment of Group companies, refer to the "List of subsidiaries and minority holdings" on pages 26 to 29.

## Financial risk management

### Foreign currency risks

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The EMS Group uses derivative financial instruments in the usual course of business to cover the risks. Different risk-positions, composed of assets and liabilities and future engagements, are judged and managed by the treasury for the whole Group. Additionally, the liquidity required for the day-to-day operations has to be available at all times. Fixed-term deposits and derivative financial instruments are only done with parties with a high credit standing. The hedging policy of the EMS Group is written down and supervised. The results of the hedge program are continuously reported to management. The treasury management is authorized to entirely or partially hedge exposures within the frame

of the defined currency policy. The EMS Group does hedge positions if the costs in relation to the risks are justified. The EMS Group mostly uses forward currency and option contracts to hedge against the risk connected with value losses in cash flow terms resulting from balance sheet and income statement items held in foreign currencies.

### Credit risks

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Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the EMS Group. Trade receivables are subject to a policy of active risk management focussing on the assessment of country risk, credit availability, ongoing evaluation of credit standing and account monitoring procedures. There are no significant concentrations within trade receivables of counter-party credit risk, due to the EMS Group's large number of customers and their wide geographical spread which has permanently been verified. Country risk limits and exposures are continuously monitored. The exposure of other financial assets to credit risk is controlled by setting a policy for limiting credit expo-

sure to high-quality counter-parties, on-going reviews of credit ratings, and limiting individual aggregate credit exposure accordingly.

### Risks of changes of interest rate

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The EMS Group uses various instruments to secure financial costs and to hedge changes in interest rates.

### Market risk of financial assets

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Changes in the market value of certain financial assets and derivative instruments can affect the net income of financial position of the EMS Group. Financial long-term assets are held for strategic purposes and marketable securities are held for fund management purposes. The risk of loss in value is reduced by reviews prior to investing and continuous monitoring of the future performance of investments and changes in their risk profile. Investments in equities, bonds, debentures and other fixed income instruments are entered into on the basis of approved guidelines with regard to liquidity and credit rating.

## Breakdown by Business area

(CHF '000)

Primary segment	Net sales with other segments		Net sales revenue Net sales with third parties		Total net sales		Net operating income (EBIT)		Segment assets <sup>1)</sup>	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
PERFORMANCE POLYMERS	196	329	929 380	879 765	929 576	880 094	148 360	138 962	821 125	771 210
FINE CHEMICALS	221	234	191 826	205 366	192 047	205 600	33 843	30 263	364 726	369 733
ENGINEERING	0	8 106	99 501	135 775	99 501	143 881	15 101	25 638	1 356 868	1 205 923
Subtotal segments	417	8 669	1 220 707	1 220 906	1 221 124	1 229 575	197 304	194 863	2 542 719	2 346 866
- Internal net sales	(417)	(8 669)			(417)	(8 669)				
Total EMS Group	0	0	1 220 707	1 220 906	1 220 707	1 220 906	197 304	194 863	2 542 719	2 346 866

For the description of the business areas see pages 8–10 within the section “General Information on the Fiscal Year”.

From the sale of PATVAG KRAFTWERKE AG and KRAFTWERKE FRISAL AG in 2002, KCHF 20 000 of the profit were reclassified from business area “Engineering” to business area “Performance Polymers”. The same procedure was chosen in 2003, where KCHF 12 000 of the profit from the sale of KRAFTWERKE REICHENAU AG were reclassified. Instead of an acceptance for future delivery of electricity which was linked to the sales price, EMS Group could have received a sales price being KCHF 20 000 respectively KCHF 12 000 lower with a lower acceptance for future delivery of electricity. The difference of KCHF 20 000 respectively KCHF 12 000 is credited to the major user EMS-CHEMIE AG (business area “Performance Polymers”).

Primary segment	Segment liabilities <sup>2)</sup>		Share of net profit/loss on equity-valued companies		Book value of equity-valued companies		Investments in intangible and tangible fixed assets		Depreciation intangible and tangible fixed assets	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
PERFORMANCE POLYMERS	145 150	125 928	(704)	(7 499)	21 153	23 926	53 888	36 668	38 695	37 793
FINE CHEMICALS	17 459	19 977	0	0	0	0	12 903	18 750	20 251	15 532
ENGINEERING	126 589	140 349	0	0	0	0	3 778	16 061	9 419	13 179
Total EMS Group	289 198	286 254	(704)	(7 499)	21 153	23 926	70 569	71 479	68 365	66 504

The allocation of the impairment on the individual segments is as follows:

Year 2003: KCHF 2 000      Technical plant, machinery      Performance Polymers  
KCHF 4 500      Technical plant, machinery      Fine Chemicals

Year 2002: KCHF 0

## Breakdown by geographical region

(CHF '000)

Secondary segment	Total net sales revenue (customers)		Total net sales revenue (production)		Net operating income (EBIT)		Segment assets <sup>1)</sup>		Investments in intangible and tangible fixed assets	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Switzerland	67 057	98 209	785 845	806 954	154 820	157 985	2 187 322	1 993 723	53 091	62 486
European Union (EU)	766 142	710 863	269 192	242 757	19 945	13 737	198 967	202 133	7 431	5 630
North America	114 532	124 350	54 144	58 299	4 036	4 956	65 609	73 379	1 805	1 466
Far East <sup>3)</sup>	209 257	227 541	111 526	112 896	18 503	18 185	90 821	77 631	8 242	1 897
Others	63 719	59 943	0	0	0	0	0	0	0	0
Total EMS Group	1 220 707	1 220 906	1 220 707	1 220 906	197 304	194 863	2 542 719	2 346 866	70 569	71 479

Invoicing and cost attribution between segments uses the same conditions as with third parties.

<sup>1)</sup> Without cash and cash equivalents and investments in associated companies.

<sup>2)</sup> Trade accounts payable, advances from customers, liabilities to related parties and associated companies, liabilities to social benefit institutions, other short-term liabilities, prepaid expenses and deferred income.

<sup>3)</sup> Mainly China, Japan and Taiwan.

## Consolidated Income Statement

Notes	2003 (CHF '000)	2002 (CHF '000)
1		
Net sales revenue from goods and services		
Within plant construction, only the Group's own added value is taken into account. Revenue and cost of sales would be higher by if the entire value of third party purchases were to be included.	53 231	30 790
2		
Capitalized costs and other operating income		
Capitalized costs	19 617	12 258
Other operating income	11 045	11 350
Real estate income	3 166	2 516
Operating interest	1 445	1 155
Income from disposal of Group companies	48 902	82 103
Income from disposal of fixed assets	10 058	84
Total capitalized costs and other operating income	94 233	109 466
3		
Material expenses		
Material and warehouse expenses	608 572	605 960
Subcontractor salaries	11 929	4 634
Energy expenses	26 194	18 864
Total material expenses	646 695	629 458
4		
Personnel expenses		
Wages and salaries	216 703	219 411
Legal/contractual social insurance	49 468	44 035
Total personnel expenses	266 171	263 446

Notes	2003 (CHF '000)	2002 (CHF '000)
Pensions schemes:		
<p>Some Group companies have their own personnel pension plans, which all comply with national regulations and requirements. Normally, the assets are held in independent trusts. In cases in which a Group company does not have its own personnel pension plans, long-term provisions have been set up in the consolidated balance sheet. The trusts are normally financed through contributions from employers and employees. The future obligations and the corresponding plan assets which are qualified as defined-benefit plans under IFRS are periodically verified by qualified actuaries, for the last time as per December 31, 2003. The following figures give an overview over the pension plans:</p>		
	31.12.2003	31.12.2002
Individual defined-benefit plans		
– Actuarial value of all benefit entitlements of former and current employees	(537 004)	(518 730)
– Market value of plan assets	492 200	423 000
– Unrecognizable amount	(26 300)	(23 340)
– Actuarial losses, not accounted for	99 526	118 613
– Net recognized assets/(liabilities) for individual defined-benefit plans due to former and current employees	28 422	(457)
The balance sheet shows the following:		
Surplus recognized as part of other long-term financial assets (see note 10)	51 032	21 892
Deficit recognized as part of other long-term liabilities (see note 22)	(22 610)	(22 349)
Total recognized net assets/(liabilities) in the Group balance sheet	28 422	(457)

Notes	2003 (CHF '000)	2002 (CHF '000)
The income statement shows the following:		
Current service cost	22 722	20 793
Interest cost	20 315	19 106
Expected return on plan assets	(25 649)	(26 808)
Curtailment gain	(872)	0
Past service cost	2 294	0
Actuarial gains/losses and adjustment for Art. 58 A	3 803	7 420
Adjustments for Art. 58	2 452	(4 457)
Employees' contribution	(9 313)	(7 128)
ERIS (Expense Recognized in the Income Statement)	15 752	8 926
The change of the balance sheet is as follows:		
ERIS (Expense Recognized in the Income Statement)	15 752	8 926
Employer's contribution	(44 631)	(8 897)
(Excess)/deficit of effective employer's contribution, net	(28 879)	29
Benefits for pension plan members covered by defined-benefit plans are calculated using the following average actuarial assumptions:		
Expected future service life of the employees	12 years	12 years
Discount rate	3.75%	3.75%
Expected long-term return on capital	6.00%	6.00%
Annual salary development	2.75%	2.75%
Adaptation of pension benefits	1.50%	1.50%
5 Other operating expenses		
Rents	6 669	6 922
Repairs and maintenance	26 768	29 104
Insurances, duties, fees	9 957	10 677
Administration, promotion	37 811	52 500
Losses on disposal of fixed assets	8 585	2 091
Other operating expenses	54 823	81 943
Total other operating expenses	144 613	183 237
6 Research and development		
Expenditures for research and development amount to	41 470	45 790
7 Financial income		
Interest from related parties and associated companies	4 860	3 209
Other interest income	11 617	12 051
Foreign exchange gains, net	0	19 046
Dividends on securities in working capital	3 338	6 349
Dividends on investments in associated and other companies	12 775	21 819
Income from sale of securities	213 024	34 047
Result from valuation of securities, net	37 956	4 261
Total financial income	283 570	100 782

Year 2002: Foreign exchange gains (KCHF 19 046) consist of the dissolution of the unrealized gain of KCHF 21 293 which was booked within shareholders' equity according to Hedge Accounting in 2001.

Notes	2003 (CHF '000)	2002 (CHF '000)	
8	Financial expenses		
	Interest to related parties and associated companies	70	94
	Other interest	52 703	67 449
	Expenses from sale of securities	50 006	2 407
	Impairment securities	115 569	0
	Impairment financial investments	114 071	0
	Foreign exchange losses, net	6 506	0
	Costs of transactions	2 157	4 308
	<b>Total financial expenses</b>	<b>341 082</b>	<b>74 258</b>
	An impairment loss has been recognized in the income statement on securities and financial investments as the decline in fair values has been considered as being permanent according to the impairment policy of the EMS Group.		
9	Income taxes		
	Current income taxes	30 898	50 882
	Deferred income taxes (see note 23)	(5 162)	(1 896)
	<b>Total income taxes</b>	<b>25 736</b>	<b>48 986</b>
	The ultimate holding company is incorporated in Switzerland. The subsidiaries operate in different countries with different tax laws and tax rates. The effective income tax expenses were different from the expected income tax expenses as follows:		
	Breakdown of the income tax expenses		
	Net income before income taxes	139 088	213 888
	Expected income tax rate	26.5%	26.5%
	Expected income taxes	36 858	56 680
	Effect of different income tax rates	6 635	(3 713)
	Use of losses carried forward	(205)	0
	Income with special income tax rates	(13 038)	(820)
	Tax holidays and corrections from previous years	(1 862)	1 687
	Other	(2 652)	(4 848)
	<b>Effective income taxes</b>	<b>25 736</b>	<b>48 986</b>
	<b>Effective income tax rate</b>	<b>18.5%</b>	<b>22.9%</b>
	Deferred income taxes are calculated using the "Comprehensive Liability Method", under which provisions are set up for all temporary differences. Tax losses carried forward are only capitalized if it is certain that the future taxable profit is sufficient to offset such a loss. The expected income tax rate is 26.5%.		



## Consolidated Balance Sheet as of December 31

### Notes

#### 10 Intangible fixed assets, tangible fixed assets, financial assets

##### I. Intangible fixed assets

(CHF '000)	Goodwill	Patents, trade marks	Others, incl. advances	2003 Total	2002 Total
<b>Cost</b>					
At 1.1.	50 001	9 712	45 195	104 908	81 863
Change in scope of cons.	0	0	8	8	(3 294)
Additions	0	28	203	231	836
Disposals	0	1 213	28 831	30 044	1 611
Reclassifications and value adjustments	0	1 213	2 214	3 427	27 251
Translation differences	0	0	251	251	(137)
At 31.12.	50 001	9 740	19 040	78 781	104 908
<b>Amortization</b>					
At 1.1.	50 001	4 149	13 445	67 595	65 686
Change in scope of cons.	0	0	0	0	(2 986)
Additions	0	1 163	5 294	6 457	6 461
Disposals	0	209	6 743	6 952	1 582
Reclassifications and value adjustments	0	0	223	223	112
Translation differences	0	0	180	180	(96)
At 31.12.	50 001	5 103	12 399	67 503	67 595
<b>Book value</b>					
At 1.1.	0	5 563	31 750	37 313	16 177
At 31.12.	0	4 637	6 641	11 278	37 313

##### Ila. Operating fixed assets

(CHF '000)	Land incl. development cost	Buildings	Technical plant, machinery, R&D plants	Furniture, EDP equipment, vehicles	Plant under construction and payments in advance	2003 Total	2002 Total
<b>Cost</b>							
At 1.1.	22 537	310 903	1 046 166	72 787	43 132	1 495 525	1 585 789
Change in scope of cons.	(321)	(83)	(45 934)	(15)	0	(46 353)	(75 916)
Additions	3	2 614	5 420	3 261	59 040	70 338	70 638
Disposals	72	2 322	49 154	10 073	68	61 689	28 476
Reclassifications and value adjustments	0	11 133	21 248	3 184	(39 294)	(3 729)	(26 979)
Translation differences	(2)	(461)	(3 300)	508	(218)	(3 473)	(29 531)
At 31.12.	22 145	321 784	974 446	69 652	62 592	1 450 619	1 495 525
<b>Depreciation</b>							
At 1.1.	892	144 382	551 889	49 417	0	746 580	776 095
Change in scope of cons.	(162)	(7)	(25 925)	(227)	0	(26 321)	(43 880)
Additions	27	7 133	48 497	6 009	156	61 822	59 943
Disposals	0	1 915	39 920	9 266	0	51 101	26 248
Reclassifications and value adjustments	0	440	534	(101)	0	873	(112)
Translation differences	(32)	93	(2 238)	386	5	(1 786)	(19 218)
At 31.12.	725	150 126	532 837	46 218	161	730 067	746 580
<b>Book value</b>							
At 1.1.	21 645	166 521	494 277	23 370	43 132	748 945	809 694
At 31.12.	21 420	171 658	441 609	23 434	62 431	720 552	748 945
Depreciation out of impairment tests performed amounts to KCHF 6 500 (2002: KCHF 0).							

Notes

IIb. Non-operating fixed assets

(CHF '000)	Land incl. development cost	Buildings	Furniture	2003 Total	2002 Total	2003 Total tangible fixed assets	2002 Total tangible fixed assets
<b>Cost</b>							
At 1. 1.	8 832	4 572	804	14 208	16 445	1 509 733	1 602 234
Change in scope of cons.	0	(584)	0	(584)	(671)	(46 937)	(76 587)
Additions	0	0	0	0	5	70 338	70 643
Disposals	236	0	6	242	1 270	61 931	29 746
Reclassifications and value adjustments	0	0	0	0	(272)	(3 729)	(27 251)
Translation differences	4	112	31	147	(29)	(3 326)	(29 560)
<b>At 31. 12.</b>	<b>8 600</b>	<b>4 100</b>	<b>829</b>	<b>13 529</b>	<b>14 208</b>	<b>1 464 148</b>	<b>1 509 733</b>
<b>Depreciation</b>							
At 1. 1.	0	1 680	739	2 419	2 625	748 999	778 720
Change in scope of cons.	0	(118)	0	(118)	(105)	(26 439)	(43 985)
Additions	0	74	12	86	100	61 908	60 043
Disposals	0	0	4	4	189	51 105	26 437
Reclassifications and value adjustments	0	0	0	0	0	873	(112)
Translation differences	0	52	28	80	(12)	(1 706)	(19 230)
<b>At 31. 12.</b>	<b>0</b>	<b>1 688</b>	<b>775</b>	<b>2 463</b>	<b>2 419</b>	<b>732 530</b>	<b>748 999</b>
<b>Book value</b>							
At 1. 1.	8 832	2 892	65	11 789	13 820	760 734	823 514
<b>At 31. 12.</b>	<b>8 600</b>	<b>2 412</b>	<b>54</b>	<b>11 066</b>	<b>11 789</b>	<b>731 618</b>	<b>760 734</b>

III. Financial assets

(CHF '000)	Participations	Associated companies Goodwill	Total	Other partici- pations	Other long-term financial assets	2003 Total	2002 Total
<b>Cost / Fair Value</b>							
At 1. 1.	23 926	3 430	27 356	482 217	54 759	564 332	839 367
Change in scope of cons.	0	0	0	0	(375)	(375)	(780)
Additions	85	0	85	478 840	34 957	513 882	38 955
Disposals	789	0	789	0	5 694	6 483	164 794
Reclassifications and value adjustments	0	0	0	(959 911)	1 167	(958 744)	(143 637)
Translation differences	(2 069)	0	(2 069)	0	147	(1 922)	(4 779)
<b>At 31. 12.</b>	<b>21 153</b>	<b>3 430</b>	<b>24 583</b>	<b>1 146</b>	<b>84 961</b>	<b>110 690</b>	<b>564 332</b>
<b>Depreciation/Amortization/Amortized cost</b>							
At 1. 1.	0	3 430	3 430	40	27 555	31 025	3 572
Change in scope of cons.	0	0	0	0	(158)	(158)	0
Additions	0	0	0	197 329	1 364	198 693	27 388
Disposals	0	0	0	0	5	5	4
Reclassifications and value adjustments	0	0	0	(197 329)	1 167	(196 162)	0
Translation differences	0	0	0	0	38	38	69
<b>At 31. 12.</b>	<b>0</b>	<b>3 430</b>	<b>3 430</b>	<b>40</b>	<b>29 961</b>	<b>33 431</b>	<b>31 025</b>
<b>Book value</b>							
At 1. 1.	23 926	0	23 926	482 177	27 204	533 307	835 795
<b>At 31. 12.</b>	<b>21 153</b>	<b>0</b>	<b>21 153</b>	<b>1 106</b>	<b>55 000</b>	<b>77 259</b>	<b>533 307</b>

According to the Board's resolution the shareholding in Lonza Group AG is regarded as a financial investment with no strategic interest and has been shown within current assets as from 2003. It is the intention of the EMS Group to significantly reduce this shareholding (see also note 33). In addition, EMS Group's representative in Lonza's Board will not stand for re-election at Lonza's Annual General Meeting of the Shareholders on March 31, 2004.

In the previous year the shareholding in Lonza Group AG was included in "Other participations" with KCHF 481 072. The other long-term financial assets contain receivables out of the application of IAS 19 (rev.) of KCHF 51 032 (2002: KCHF 21 892) as well as loans to third parties.

Notes	2003 (CHF '000)	2002 (CHF '000)
Fire insurance value		
Property, plant and equipment The insurance of fixed assets is at replacement values.	1 855 476	1 933 898
11 Inventories		
Raw materials and supplies	59 579	56 477
Semi-finished goods, work in progress	28 673	22 037
Finished products	134 493	138 519
Advance payments on goods	2 198	3 766
Total inventories	224 943	220 799
12 Trade accounts receivable		
Accounts receivable from long-term construction contracts	1 541	5 077
Trade accounts receivable from associated companies	418	1 525
Trade accounts receivable	203 943	192 858
Provision for bad debts	(7 199)	(6 821)
Total trade accounts receivable	198 703	192 639
13 Other receivables		
Receivables from related parties	0	152 985
Receivables from associated companies	1 545	710
Other receivables	41 090	30 577
Prepayments and accrued income	87 082	60 965
Total other receivables	129 717	245 237
Receivables from related parties bear interest at commercial rates (2003: 2.25%, 2002: 3.5%; see note 32).		
14 Securities		
Marketable securities are valued at fair value (according to IAS 39 "Financial Instruments").		
15 Financial investments		
Financial investments are valued at fair value (according to IAS 39 "Financial Instruments"). In the reporting year they exclusively consist of the shareholding in Lonza Group AG.		
16 Cash and cash equivalents		
Deposits	535 165	779 428
Cash and cash equivalents	18 534	16 715
Total cash and cash equivalents	553 699	796 143
Maturity < 3 months	553 224	796 135
Maturity > 3 months	475	8

Notes					2003 (CHF '000)	2002 (CHF '000)
17	Share capital					
	Summary	2002				
		Par value	Number	Percentage of voting rights	capital	
	Registered shares (until 31.10.03)	CHF 10	729 300	65.98 %	27.95 %	– 7 293
	Bearer shares (until 31.10.03)	CHF 50	376 000	34.02 %	72.05 %	– 18 800
	Share capital					– 26 093
		2003				
		Par value	Number			
	Registered shares (from 3.11.03)	CHF 0.01	26 093 000			261 –
	Share capital					261 –
18	Changes in fair value of securities and other investments					
	Balance per January 1				(200 867)	95 174
	Transfer into consolidated income statement				165 824	(14 170)
	Fair value changes according to IAS 39				108 679	(281 871)
	Balance per December 31				73 636	(200 867)
19	Minority interests					
	This item reflects the minority interests in capital and profit and loss for the year respectively. Minorities own significant shares in EMS-UBE Ltd., EC-SHOWA-DENKO K.K., EFTEC Asia Pte. Ltd., Shanghai EFTEC Chemical Products Ltd., Changchun EFTEC Chemical Products Ltd. and EFTEC Europe Holding AG. The change in minority interests is as follows:					
	Balance per January 1				30 824	32 614
	Change in scope of consolidation				1 130	(673)
	Dividends paid				(2 199)	(2 627)
	Net income				6 475	3 954
	Currency translation differences				(1 270)	(2 444)
	Balance per December 31				34 960	30 824
20	Bonds					
	KRAFTWERKE REICHENAU AG: 4 <sup>3</sup> / <sub>8</sub> % debenture bond 1995 – 1.12.2005				0	50 000
	EMS-CHEMIE HOLDING AG: 2% exchangeable bond 2002 – 25.7.2008				275 467	270 589
	EMS-CHEMIE HOLDING AG: 4% debenture bond 2002 – 29.7.2008				298 130	297 761
	EMS-INTERNATIONAL FINANCE (Guernsey) Ltd.: 2.5% exchangeable bond 2002 – 23.4.2010				321 227	317 285
	Total bonds				894 824	935 635

The option component of the exchangeable bonds is presented within "Other long-term liabilities" (see note 22).

Due to the sale of KRAFTWERKE REICHENAU AG the 4<sup>3</sup>/<sub>8</sub>% debenture bond of KRAFTWERKE REICHENAU AG dropped out in 2003.

Notes	2003 (CHF '000)	2002 (CHF '000)
Details to the bonds issued:		
2% exchangeable bond 2002 – 25. 7. 2008 (nominal CHF 300 Mio.)		
Each bond of CHF 5 000 can be converted at any time during the period of exchange (25. 7. 2002 – 15. 7. 2008) either in 39,52569 registered shares of Lonza Group AG or in 35,72050 registered shares of EMS-CHEMIE HOLDING AG (choice by the bond holder) [Conversion price per Lonza share: CHF 126.50; conversion price per EMS share: CHF 139.97; in case of a delisting of EMS registered shares the conversion right is lost for those shares, and the conversion price for Lonza is reduced from CHF 126.50 to CHF 121]. The issuer has the right to settle the obligation in cash instead of delivering registered shares of Lonza Group AG or registered shares of EMS-CHEMIE HOLDING AG. In spite of the possibility to convert into EMS shares the total option component is regarded as a liability.		
4% debenture bond 2002 – 29. 7. 2008 (nominal CHF 300 Mio.)		
2.5% exchangeable bond 2002 – 23. 4. 2010 (nominal CHF 350 Mio.)		
Each bond of CHF 5 000 can be converted at any time during the period of exchange (23. 4. 2002 – 13. 4. 2010) in 40 registered shares of Lonza Group AG (Conversion price per Lonza share: CHF 125).		
21 Bank loans		
The long-term bank loans are composed as follows:		
CHF: Average interest rate in 2003: 2.85% (2002: –)	50 000	0
JPY: Average interest rate in 2003: 1.90% (2002: 1.68%)	43 103	95 490
USD: Average interest rate in 2003: 1.82% (2002: 2.72%)	4 960	5 546
Total bank loans	98 063	101 036
Maturity 1 – 5 years	93 103	95 490
Maturity > 5 years	4 960	5 546
The carrying amounts of bank loans approximate their fair value.		
22 Other long-term liabilities		
Other long-term liabilities	998	3 114
Option component of exchangeable bond	10 908	47 823
Leasing liabilities	39	133
Liabilities out of application of IAS 19 (rev.)	22 610	22 349
Total other long-term liabilities	34 555	73 419

Notes

23 Provisions

(CHF '000)	Pension liabilities	Provisions for restructuring	Provisions for litigation costs	Other provisions risks	Provisions for deferred	Total provisions income taxes
At 1.1.2002	2251	157	5590	51 068	199 720	258 786
Change in scope of cons.	(996)	0	0	0	(4 017)	(5 013)
Increase via Income Statement	74	15 491	31 268	3 043	4 656	54 532
Decrease via Income Statement	(285)	0	(450)	(2 226)	(6 552)	(9 513)
Amounts used	0	(146)	(30)	(986)	0	(1 162)
Translation differences	(47)	(119)	(5)	(234)	(200)	(605)
At 31.12.2002	997	15 383	36 373	50 665	193 607	297 025
Change in scope of cons.	0	0	0	0	(115)	(115)
Increase via Income Statement	165	0	20 085	2 678	916	23 844
Decrease via Income Statement	(6)	(3 229)	(20 103)	(517)	(6 078)	(29 933)
Amounts used	0	(4 127)	0	(34 280)	0	(38 407)
Reclassifications	328	0	38	(450)	0	(84)
Translation differences	59	212	9	453	203	936
At 31.12.2003	1 543	8 239	36 402	18 549	188 533	253 266
Of which:						
Current portion of provisions	0	8 239	0	0	0	8 239
Non-current portion of provisions	1 543	0	36 402	18 549	188 533	245 027

Pension liabilities mainly contain provisions for payments to governmental institutions or independent defined contribution pension plans of subsidiaries abroad.

The restructuring in the business areas "Performance Polymers" and "Engineering" has been initiated in the current year and will be finished next year. Within the provisions for litigation risks, the risk out of current and potential litigation processes is adequately covered as at the moment of the establishment of the financial statements.

Warranty provisions and provisions for other business risks are included within other provisions.

In the current year, an adjustment payment of KCHF 31 000 was made to Emesta Holding AG out of the other provisions. This amount has been set up on a no-profit no-loss basis in year 2001 during the sale of Atisholz from EMS-CHEMIE HOLDING AG to Emesta Holding AG and did therefore never influence the income statement of the EMS Group (see note 32).

Note to the provisions for deferred income taxes	2003 (CHF '000)	2002 (CHF '000)
Calculation according to the "Comprehensive Liability Method":		
Temporary differences on fixed assets	592 750	609 758
Temporary differences on current assets	125 302	114 881
Temporary differences on liabilities	1 488	11 773
Total temporary differences in the balance sheet		
between tax balance sheet and IFRS balance sheet	719 540	736 412
Weighted tax rate for deferred income taxes	26.2%	26.3%
Provisions for deferred income taxes	188 533	193 607

Notes	2003 (CHF '000)	2002 (CHF '000)
Losses carried forward, accepted by fiscal authorities		
Total not considered losses carried forward	15 049	12 000
In the balance sheet not considered deferred income tax assets based on not considered losses carried forward	5 767	4 235
Of which to be carried forward at the longest:		
1 year	0	0
2 years	0	0
3 years	0	0
4 years	0	0
5 years	0	0
More than 5 years	5 767	4 235
<b>24 Other short-term liabilities</b>		
Advances from customers for long-term construction contracts	33 710	12 828
Other advances	7 920	6 320
Prepaid expenses and deferred income	124 130	115 966
Liabilities to social security institutions	13 244	10 198
Other short-term liabilities	23 606	54 812
Total other short-term liabilities	202 610	200 124
<b>25 Liabilities, net/(Net cash position)</b>		
Bonds (see note 20)	894 824	935 635
Option component of exchangeable bonds (see note 22)	10 908	47 823
Long-term bank loans (see note 21)	98 063	101 036
Pension liabilities (see note 23)	1 543	997
Long-term liabilities to retirement plans	0	1 844
Short-term bank loans (Average interest rate 2003: 1.41%; 2002: 4.62%)	58 990	127 870
Leasing obligations (see note 22)	39	133
Interest-bearing liabilities	1 064 367	1 215 338
less		
Receivables from related parties (see note 13)	0	152 985
Receivables from associated companies (see note 13)	1 545	710
Securities (see note 14)	382 726	380 763
Deposits (see note 16)	535 165	779 428
Financial investments (see notes 10, 15)	807 628	481 072
Interest-bearing liabilities, net/(Cash, net)	(662 697)	(579 620)
less		
Cash and cash equivalents (see note 16)	18 534	16 715
Liabilities, net/(Net cash position)	(681 231)	(596 335)

## Consolidated Cash Flow Statement

Notes		2003 (CHF '000)	2002 (CHF '000)
26	Depreciation of intangible and tangible fixed assets and financial assets		
	Amortization intangible fixed assets	6 457	6 461
	Depreciation tangible fixed assets	61 908	60 043
	Subtotal amortization intangible/depreciation tangible fixed assets	68 365	66 504
	Impairment financial investments	114 071	0
	Value adjustment to financial assets	1 364	27 388
	Total depreciation intangible and tangible fixed assets and financial assets	183 800	93 892
	For the breakdown of the depreciation of tangible fixed assets refer to note 10 and to the segment reporting.		
27	Purchase/disposal of consolidated companies		
		Additions	Disposals
	Tangible fixed assets	500	(21 207)
	Long-term liabilities	0	50 115
	Goodwill paid	0	-
	Working capital	4 372	(32 185)
	Minority interests	(1 949)	819
	Net assets acquired/divested	2 923	(2 458)
	Purchase price (paid)/received	(2 923)	51 360
	Cash and cash equivalents	663	(32 000)
	Cash flow from (purchase)/disposal of participations	(2 260)	19 360
	On February 12, 2003, KRAFTWERKE REICHENAU AG were sold retroactively per January 1, 2003. Since January 1, 2003 Changchun EFTEC Chemical Products Ltd. has been a fully consolidated subsidiary.		
<b>Further Details</b>			
28	Contingent liabilities		
	Commitments and contingent liabilities at the end of the year amount to It mainly relates to issued guarantees.	35 167	47 660
	No legal proceedings are known to be in progress within the Group which could have a significant impact on the financial position of the Group that exceed the provisions booked in the balance sheet.		



Notes			2003 (CHF '000)	2002 (CHF '000)	
29	Open derivative financial transactions				
	The following summary shows the most important open derivative financial transactions:				
	SWAPS and forward rate agreements	JPY/CHF	Notional amount CHF	365 658	387 381
			Positive replacement value CHF	26 419	27 846
			Negative replacement value CHF	826	3 590
		USD/CHF	Notional amount CHF	81 545	53 933
			Positive replacement value CHF	3 663	2 385
			Negative replacement value CHF	20	824
		EUR/CHF	Notional amount CHF	684 731	5 444
			Positive replacement value CHF	2 740	8
			Negative replacement value CHF	9 495	0
	Currency Options	JPY/CHF	Notional amount CHF	24 200	0
			Positive replacement value CHF	10	0
			Negative replacement value CHF	220	0
		USD/CHF	Notional amount CHF	13 362	0
			Positive replacement value CHF	355	0
			Negative replacement value CHF	5	0
	Interest Swaption	CHF	Notional amount CHF	325 000	425 000
			Positive replacement value CHF	280	1 025
			Negative replacement value CHF	16 012	25 475
	Equity Options	CHF	Notional amount CHF	300 000	389 500
			Positive replacement value CHF	8 400	5 923
			Negative replacement value CHF	0	5 270
	Total		Notional amount CHF	1 794 496	1 261 258
			Positive replacement value CHF	41 867	37 187
			Negative replacement value CHF	26 578	35 159

Maximum risk equals the sum of the positive replacement values.  
This risk is considered being minimal, as the counterparties are first-rate financing institutions.

For the interest rate of bonds, short and medium-term bank liabilities refer to notes 20, 21 and 25.

Notes	2003 (CHF '000)	2002 (CHF '000)
30 Earnings per Share – EPS		
Earnings per share are calculated by dividing the Group's net income (net of minority interests) by the weighted average of shares entitled to dividend (excluding treasury shares). "Fully-diluted earnings per share" pays due regard to any dilution which may be caused by the exercising of warrant and conversion rights on outstanding bond issues.		
Earnings per share details are as follows:		
Net income (CHF '000)	106 877	160 948
Weighted average of registered shares entitled to dividend	26 093 000	26 093 000
Weighted average of registered shares (fully diluted)	26 093 000	26 093 000
Earnings per registered share entitled to dividend (CHF)	4.10	6.17
Earnings per registered share (fully diluted) (CHF)	4.10	6.17
Earnings per registered share as per 31.12. (CHF)	4.10	6.17
There are no facts with a dilutive effect on earnings per share calculation. All information per share have been restated for the share split which took place on November 3, 2003.		
31 Significant shareholders		
Emesta Holding AG, Zug / Christoph Blocher, 18 699 240 registered shares		
Percentage of capital held	–	71.66%
Percentage of voting rights held	–	86.59%
Emesta Holding AG, Zug, 15 555 963 registered shares		
Percentage of capital and voting rights held	59.62%	–
All information of previous year have been restated for the share split which took place on November 3, 2003.		
With contract of December 30, 2003 Christoph Blocher disposed his total investment of EMS-CHEMIE HOLDING AG to his four children in equal shares.		
Between the four children exists no shareholders' contract.		
A representation of other significant shareholders is not known to the Board of Directors. Emesta Holding AG is controlled by Magdalena Martullo-Blocher, Markus Blocher, Miriam Blocher and Rahel Blocher (see note 32).		
32 Transactions with related parties		
As related parties are regarded Emesta Holding AG, Zug (majority shareholder), members of the board, business managers and associated companies. For financial key figures of the significant associated companies, see note 36.		
The members of the board or business managers did not receive any credits, advances or other kind of loans. For their remuneration, refer to the chapter "Corporate Governance".		
In the current year, Emesta Holding AG repaid its short-term loan of KCHF 152 985 (see note 13).		
By definitive fixing the sales price of Atisholz, which was sold from EMS-CHEMIE HOLDING AG to Emesta Holding AG in business year 2001, an adjustment payment of KCHF 31 000 was made to Emesta Holding AG in 2003 (see note 23). EMS-CHEMIE HOLDING AG issued in connection with the sale of Atisholz a guarantee for warranties in favor of Emesta Holding AG in the maximum amount of KCHF 20 000.		

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Notes

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33 Subsequent events

On February 13, 2004 a notification was sent to the disclosure office of SWX Swiss Exchange and to Lonza Group AG that EMS decreased the amount of holding at Lonza Group AG from 22.52% per December 31, 2003, to 19.54% per February 13, 2004 (correspondent to 9 859 047 shares).

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34 List of subsidiaries and minority holdings (at 31. 12. 2003)

Name	Domicile	Country
EMS-CHEMIE HOLDING AG	Domat/Ems	Switzerland
EMS-INTERNATIONAL FINANCE (Guernsey) Ltd.	Guernsey	Guernsey
EMS-FINANCE (Guernsey) Ltd.	Guernsey	Guernsey
<u>BUSINESS AREA PERFORMANCE POLYMERS</u>		
EMS-CHEMIE AG	Domat/Ems	Switzerland
EMS-CHEMIE (France) S.A.	Boulogne	France
EMS-CHEMIE (UK) Ltd.	Stafford	Great Britain
EC-SHOWA DENKO K.K.	Tokyo	Japan
EMS-UBE Ltd.	Ube	Japan
EMS-CHEMIE (Deutschland) GmbH	Gross-Umstadt	Germany
EMS-CHEMIE (Asia) Ltd.	Hsin Chu Hsien	Taiwan
EMS-GRILON HOLDING INC.	Wilmington	USA
EMS-CHEMIE (North America) Inc.	Sumter	USA
EFTEC Europe Holding AG	Zug	Switzerland
EFTEC AG	Romanshorn	Switzerland
EFTEC Sàrl	Montataire Cedex	France
EFTEC AB	Hässleholm	Sweden
EFTEC Engineering AB	Hässleholm	Sweden
EFTEC Engineering GmbH	Markdorf	Germany
EFTEC Ltd.	Rhigos	Great Britain
EFTEC NV	Genk	Belgium
EFTEC S.A.	Zaragoza	Spain
EFTEC Asia Pte. Ltd.	Singapore	Singapore
EFTEC (Thailand) Co. Ltd.	Rayong	Thailand
Shanghai EFTEC Chemical Products Ltd.	Shanghai	China (People Rep.)
Changchun EFTEC Chemical Products Ltd.	Changchun	China (People Rep.)
EFTEC Shroff India Ltd.	Mumbai	India
EFTEC GmbH	Lügde	Germany
D PLAST-EFTEC a.s.	Zlín	Czech Republic
EMS-TOGO Corp.	Taylor	USA
EFTEC North America, L.L.C.	Madison Heights	USA
DINOL Holding AB	Hässleholm	Sweden
DINOL AB	Hässleholm	Sweden
SEGURO Corp.	Detroit	USA

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Currency	Share capital (in '000)	Holding		Category	Consolidation
		Group	direct		
CHF	261			D	K
CHF	50	100.00%	100.00%	D	K
CHF	1	100.00%	100.00%	D	K
CHF	100	100.00%	100.00%	P,V	K
EUR	1 951	100.00%	100.00%	V	K
GBP	1 530	100.00%	100.00%	V	K
JPY	300 000	70.00%	70.00%	V	K
JPY	1 500 000	66.67%	66.67%	P	K
EUR	2 556	100.00%	100.00%	P,V	K
TWD	281 000	100.00%	100.00%	P,V	K
USD	2 420	100.00%	95.87%	D	K
USD	11 285	100.00%	100.00%	P,V	K
CHF	8 000	70.00%	70.00%	D	K
CHF	2 500	70.00%	100.00%	P,V	K
EUR	8	70.00%	100.00%	V	K
SEK	5 000	70.00%	100.00%	P,V	K
SEK	5 000	70.00%	100.00%	P,V	K
EUR	25	70.00%	100.00%	P,V	K
GBP	352	70.00%	100.00%	P,V	K
EUR	1 240	70.00%	100.00%	P,V	K
EUR	944	70.00%	100.00%	P,V	K
SGD	5 800	42.00%	60.00%	D,V	K
THB	30 000	42.00%	100.00%	P,V	K
CNY	20 750	25.20%	60.00%	P,V	K
CNY	27 500	25.20%	60.00%	P,V	K
INR	15 000	20.58%	49.00%	P,V	E
EUR	1 023	70.00%	100.00%	P,V	K
CZK	47 569	35.00%	50.00%	P,V	E
USD	750	100.00%	100.00%	D	K
USD	44 139	30.00%	30.00%	P,V	E
SEK	100	100.00%	100.00%	D	K
SEK	1 000	100.00%	100.00%	P,V	K
USD	10	100.00%	100.00%	D	K

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Notes

Name	Domicile	Country
<u>BUSINESS AREA FINE CHEMICALS</u>		
EMS-DOTTIKON AG	Dottikon	Switzerland
EMS-PRIMID *)		
<u>BUSINESS AREA ENGINEERING</u>		
EMS-PATVAG AG	Domat/ Ems	Switzerland
INVENTA-FISCHER AG	Männedorf	Switzerland
GRIVELA AG	Männedorf	Switzerland
EMS-INVENTA ANLAGENBAU (Holding) GmbH	Berlin	Germany
EMS-INVENTA ANLAGENBAU (Berlin) GmbH	Berlin	Germany
INVENTA-FISCHER GmbH & Co. KG	Berlin	Germany

Category:  
P = Production  
V = Trade, sale  
D = Financing, various

Consolidation:  
K = Fully consolidated  
E = Equity valuation

\*) EMS-PRIMID is a reporting unit  
within EMS-CHEMIE AG

Currency	Share capital (in '000)	Group	Holding direct	Category	Consolidation
CHF	102	100.00%	100.00%	P,V	K
CHF	100	100.00%	100.00%	P,V	K
CHF	100	100.00%	100.00%	P,V	K
CHF	100	100.00%	100.00%	D	K
EUR	3 205	100.00%	79.77%	D	K
EUR	26	100.00%	100.00%	D	K
EUR	1 023	100.00%	100.00%	P,V	K

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Notes

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35 Change in scope of consolidation

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Fully-consolidated:

Addition:

Changchun EFTEC Chemical Products Ltd.

Per January 1, 2003, the existing minority interest was increased to 60%.

Disposal:

KRAFTWERKE REICHENAU AG

On February 12, 2003, this company was sold retroactively per January 1, 2003 to Nordostschweizerische Kraftwerke (INOK).

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36 Significant associated companies

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EFTEC North America, L.L.C.

Domicile	Madison Heights, USA
Percentage of holding	30.00%
Financial year	December 1, 2002 – November 30, 2003
Category	Production, Sale
Currency	USD
Revenue	KCHF 123 512
Fixed assets	KCHF 38 385
Current assets	KCHF 38 029
Shareholders' equity	KCHF 55 324
Liabilities	KCHF 21 090
Net income/(net loss)	KCHF (154)

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Between December 1, 2003 and December 31, 2003 no events occurred that materially influenced shareholders' equity.

D PLAST-EFTEC a.s.

Domicile	Zlín, Czech Republic
Percentage of holding	35.00%
Financial year	January 1, 2003 – December 31, 2003
Category	Production, Sale
Currency	CZK
Revenue	KCHF 17 464
Fixed assets	KCHF 5 944
Current assets	KCHF 4 476
Shareholders' equity	KCHF 6 455
Liabilities	KCHF 3 965
Net income	KCHF 2 023

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## Report of the Group Auditors

Report of the Group Auditors  
to the General Meeting of  
EMS-CHEMIE HOLDING AG  
Domat/Ems

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, changes in consolidated shareholders' equity, cash flow statement and notes to the consolidated financial statements / pages 2 to 30) of EMS-CHEMIE HOLDING AG for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet

the legal requirements concerning professional qualification and independence.

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

audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Zurich, April 29, 2004

PricewaterhouseCoopers AG

Urs Honegger Matthias von Moos