

Annual Report 2004
Sarna Polymer Holding Inc.

Key figures of Sarna Group for the year 2004

Monetary values in CHF million	2004	2003 ⁴	Changes in %
Key performance data			
Gross sales	880.8	864.5	1.9
– of which foreign countries in %	91.6	91.3	
– Sarnafil Division	379.1	368.8	2.8
– Sarnamotive Division Europe	303.0	292.8	3.5
– Sarnamotive Division America	198.7	202.9	–2.1
Sales per employee (in CHF 1,000)	232.8	227.4	
Depreciation			
– in % of gross sales	4.5	4.9	–5.3
Impairment charges	75.0	0.0	
Capital expenditures	30.5	66.2	–53.9
Number of employees			
– end of year	3,723	3,844	–3.1
– average	3,784	3,802	
Result			
Operating result before interest and taxes	–78.7	11.8	
– in % of gross sales	–8.9	1.4	
Result group	–98.9	0.8	
– in % of gross sales	–11.2	0.1	
Return on assets in %	–17.1	2.0	
Cash flow			
Cash flow ¹	15.9	42.9	–62.9
– in % of gross sales	1.8	5.0	
Balance sheet			
Total assets	461.8	574.2	–19.6
Current assets	295.1	307.0	–3.9
– in % of total assets	63.9	53.5	
Net debt	150.8	155.6	–3.1
Non-current assets	166.7	267.2	–37.6
– in % of total assets	36.1	46.5	
Current liabilities	155.1	159.1	–2.5
Long-term liabilities	207.3	207.1	0.1
Shareholders' equity ²	99.5	208.0	–52.2
– in % of total assets	21.5	36.2	
Share capital (in CHF 1,000)	2,400	2,400	
Dividend per registered share in CHF ³	0	3.50	

¹ Result group plus depreciation plus impairment charges

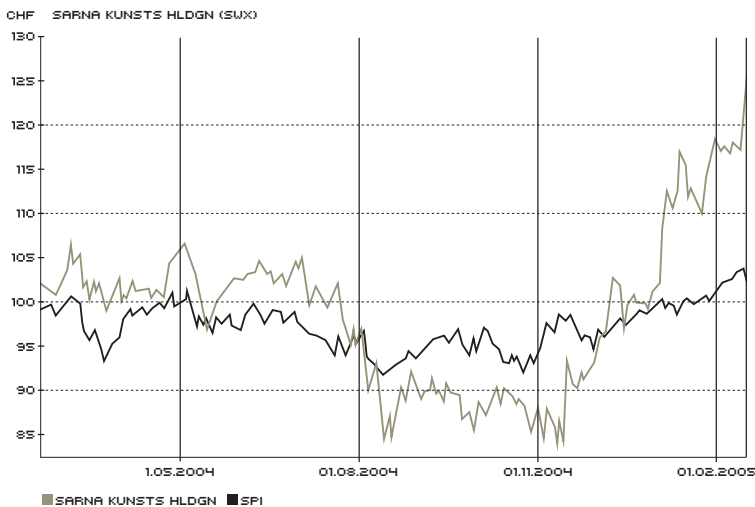
² Including minorities

³ The Board of Directors proposes that the distribution of dividends be waived.

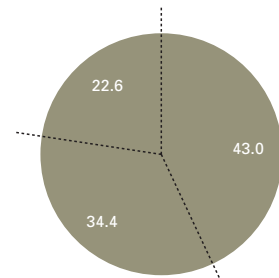
⁴ Certain prior year figures have been adjusted to ensure comparability with the current year presentation.

The Sarna Group is concentrating on the continuation and successful expansion of the business with high-performance polymer-based waterproofing materials and systems for the international construction and civil engineering industries. The automotive business in Europe and America will be sold by the end of 2005.

The Sarnafil Division is striving for strong organic growth. At the same time, and depending on the inflow of funds from the sale of the automotive activities, targeted acquisitions in areas of complementary products and systems in the Sarnafil business will be explored. For the Sarnafil Division, there is growth potential in further geographical expansion and in building up its existing product and system portfolio.

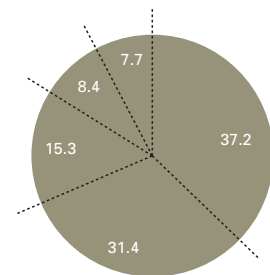


The registered shares of Sarna Polymer Holding Inc. are quoted on the SWX Swiss Exchange (security code 1421775). As of 31 December 2004, there were 2,921 registered shareholders.



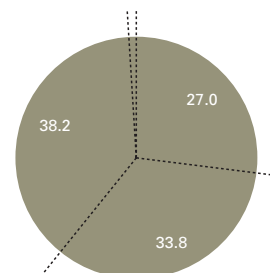
Gross sales per division (in %)

43.0 Sarnafil Division
 34.4 Sarnamotive Division Europe
 22.6 Sarnamotive Division America



Gross sales per region (in %)

37.2 North America
 31.4 Germany
 15.3 Other foreign countries
 8.4 Switzerland
 7.7 UK



Employees per division (in %)

27.0 Sarnafil Division
 33.8 Sarnamotive Division Europe
 38.2 Sarnamotive Division America
 1.0 Corporate

February 2004: Collective wage agreement of the German subsidiary Sarnamotive Paulmann & Crone with the works council and the trade unions concerning the restructuring.

March 2004: The Sarna Group presents a balanced result for the financial year 2003, thanks to the strong performance of the Sarnafil Division and despite restructuring costs in the automotive business.

April 2004: The Annual General Meeting elects three new members to the Board of Directors. Fritz Studer, a member of the Board since 2003, takes over its presidency.

August 2004: The Group's half-year result shows a satisfactory increase in sales of six percent. Sarnafil Division still successful, the automotive sector is not on target course. CEO Matti Paasila takes over management of Sarnamotive Division Europe on an interim basis.

October 2004: The Sarnafil Division opens a new factory in Shanghai. **November 2004:** The Board of Directors decides to examine the existing dual strategy. The Sarnafil Division's high profitability and growth potential ought to be safeguarded in the long term and further enhanced.

December 2004: The Board of Directors decides to focus on the successful Sarnafil Division and to sell the automotive business.

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New strategic positioning: The 2004 financial year turned out to be very eventful for Sarna Polymer Holding Inc. In December, the Board of Directors announced that the automotive business would be sold. In the future, Sarna will be concentrating on the successful Sarnafil Division in the area of high-quality polymer-based membranes.

2004 has brought a number of big challenges for the Board of Directors, which was mostly renewed at the Annual General Meeting at the end of April.

At the end of 2003, Sarna had decided on a comprehensive restructuring of the automotive sector. This was initiated by an almost completely new division management, and proceeded satisfactorily in the first months. Subsequently, however, the restructuring process slowed down, so that, in July 2004, we had to announce delays and higher restructuring costs. This unsatisfactory development of operating performance compelled the Board of Directors to effect the necessary personnel changes in Group Management. As a result, at the end of August, CEO Matti Paasila additionally took over the management of the European automotive division on an interim basis. There was also a management change at Sarnamotive Division America in January 2005.

The Board of Directors deeply analyzed the deterioration of profitability of the automotive sector. It laid down clear guidelines to management concerning the expected progress of the restructuring efforts. However, the targeted results were still not achieved during the second half of last year. Finally, the Board of Directors decided to seriously examine continuation of the dual strategy and to look for solutions for the automotive sector. This examination led to a decision, taken at the end of the year, to divest the entire automotive business. It showed

that consequences of earlier mistakes in operative decisions and wrong management appointments could not easily be corrected in a short period of time.

Big differences between divisions

While the Sarnafil Division has been able to consistently achieve sales growth over the years, with an EBIT margin averaging above 10 percent, and consequently steadily increasing company value, the results of the automotive business have deteriorated in the past few years. Only German subsidiary Sarnamotive Schenk was able to produce good results. On the other hand, there was a real need for restructuring at Sarnamotive Paulmann & Crone. In the American automotive division, especially the decline in sales of the big American car manufacturers, higher costs for material as well as the complexity of the transfer business left its mark.

Different future outlooks

Also the future outlooks of the two sectors have to be assessed as very different. The Sarnafil Division, with production facilities in Switzerland, the USA and China, is in a good position for supplying international construction and civil engineering markets. Growth possibilities exist through better penetration of existing markets as well as through the opening up of new ones. The first steps have al-



Fritz Studer has been a member of the Sarna Board of Directors since 2003 and Chairman since 2004.

ready been taken to this effect. Additionally, there are good expansion possibilities in related business areas, for instance in the field of insulation, with accessory materials and with the development of new services.

In the automotive divisions, however, there are further challenges in the future. The companies of the European automotive division are well positioned with their products with the big German manufacturers. However, the challenge is to successfully terminate the restructuring process, to further lower costs because of massive pressure from customers and to continually transfer labor-intensive activities to more cost-effective countries, such as, for instance, the Czech Republic. In addition, in a next step, the customer base has to be extended to other European automobile manufacturers.

In the American automotive division, the introduced extension of the customer base to include the Asian and European manufacturers has to be pushed along. There is also the challenge of building new production facilities in southern USA, close to the "new domestics". On top of this, the cost basis has to be further reduced and the new strategic orientation towards added-value modules (amongst others in the area of airflow management) has to be further concretized and implemented.

Outlook and thanks

The Board of Directors has set the objective of selling the automotive activities by the end of 2005. In doing so, we want to keep an eye on the interests of all our stakeholders – customers, shareholders, employees and suppliers. Concurrently, the position of Sarnafil should be consistently and intensively strengthened. On the one hand, we will strive for organic growth and, on the other – depending on the inflow of funds from the sale of the automotive companies – we will explore growth by means of acquisitions. The main objective of the Board of Directors is to further consolidate Sarnafil's strong market position, to extend its worldwide activities and presence, and consequently to be, and remain, a reliable partner for both customers and employees. The past year has been extremely demanding on all our employees. On behalf of the Board of Directors, thank you for your great efforts. Our thanks go also to our customers for their loyalty and good cooperation. Finally, I would like to thank our shareholders for their interest and trust in our company.

A handwritten signature in black ink, appearing to read "F. Studer".

Fritz Studer
Chairman of the Board of Directors

Strong Sarnafil – weak automotive business: In the reported financial year, business at the Sarnafil Division was once again very strong. Despite enormous efforts, the turnaround of the automotive business was not achieved in 2004.

In 2004 the Sarna Group achieved increased sales of 4 percent in local currencies. Profitability, however, was poor. On the one hand, markedly increased raw material prices and the weak dollar influenced the result negatively, while, on the other hand, the Group operating performance was unsatisfactory due to the performance of the automotive divisions.

Strong Sarnafil business

The Sarnafil Division can once again look back on a successful year. Market shares were increased in all the important markets. In Europe, business in Great Britain was particularly successful. In the Swiss home market, Sarnafil maintained a leading position in a market that should now have bottomed out. The big investments that flowed into the USA, both into production as well as into marketing, in the past few years, are showing a positive effect. Expansion of the market organization will be further pursued this year too.

Last year saw the opening of the new production facilities in Shanghai. As a result, Sarnafil can now also produce reinforced, high-quality membranes in the Chinese market. Consequently, the increasing number of customers demanding high quality can now be supplied with this top-of-the-range product. China is a growth market with great potential, and Sarnafil has made the necessary investments and set the course so as to be in a position to participate in this growth in the coming years.

With the new division organization introduced on 1 January 2005, in which the previous Flat Roof, Pitched Roof and Civil Engineering Business Areas have been replaced by a regional structure, the individual markets can be handled more efficiently. In addition, with the new and leaner organization structure, the overlaps between the previous Business Areas and the individual marketing organizations are eliminated. Coordinated marketing over all markets will lay the basis for further strengthening of the Sarnafil brand. At the same time, research and development has been strengthened, in order to provide support for the further enhancement of the division's innovation potential.

Disappointing automotive business

Despite enormous financial and personnel efforts, we did not succeed in achieving the desired turnaround of the two automotive companies Sarnomotive Paulmann & Crone and Sarnomotive Blue Water. However, in the Sarnomotive Division Europe, Sarnomotive Schenk in Esslingen (Germany) once again manifested a good performance. Under the management of Sarnomotive Schenk, the new factory in Liberec (Czech Republic) was built in record time. The factory is already well established within Sarnomotive Europe. In the past year, projects amounting to CHF 15 million annual sales were transferred from Germany to the more cost-effective new factory. The problems at Sarnomotive Paulmann & Crone,



Matti Paasila has been a member of the Board of Directors since 1998. In 2003, he became CEO and Delegate of the Board of Directors of the Sarna Group.

which has been undergoing a far-reaching restructuring process since the end of 2003, have not yet been resolved completely. In July already, Sarna had to announce that restructuring would take longer and involve higher costs. With new division management as of August and additional immediate measures, further steps were introduced in order to turn this trend around.

In Sarnamotive Division America, sales developed satisfactorily throughout the whole year. In the second half of the year, acquisition activities slowed down somewhat, due to a number of pending start-ups. Higher engineering costs for new and transfer products, higher material costs and the big new production start-up for the M-Class Mercedes led to considerably higher costs. Since January 2005, a new division management is working on improving start-up management and productivity. Further measures to reduce costs are identified and will follow this year.

Overall, Sarnamotive Paulmann & Crone and Sarnamotive Blue Water are still in the restructuring process. The necessary corrective measures have been introduced. It is important for the future that both divisions are able to build on solid customer relationships and also have a substantial innovation and development potential. Despite a phase of uncertainty, both division managements have been able to count on committed and motivated employees.

Focus on Sarnafil

After the divestment of the automotive sector in 2005, all resources will be directed towards further developing the Sarnafil Division. The first priority is to push ahead with building up the existing market organizations, particularly in the USA and China, as well as further geographic expansion. At the same time, new products, systems and services will be developed.

Prospects for the European construction market are assessed with cautious optimism. The US market is difficult to assess from today's standpoint. However, with the build-up of market presence, Sarnafil should be able to further strengthen its position. In China, the new product line has to be introduced to the booming market. In this way, the basis for future growth will be laid. The Board of Directors and the Executive Board foresee an organic growth of approximately 5 percent per annum for Sarnafil. At the same time, the existing, good operating profit margin should be maintained.

The Board of Directors and the Executive Board are convinced that, with the decision to sell the automotive sector, better use can be made of the potentials of both the Sarnafil Division and the Sarnamotive Divisions in the future.

A handwritten signature in black ink, appearing to read 'Matti Paasila', enclosed within a large, hand-drawn oval shape.

Matti Paasila
Delegate of the Board of Directors and CEO



Ewald Hoelker,
member of the
Board of Directors
since 2004.

Matti Paasila,
member of the
Board of Directors
since 1998; Dele-
gate of the Board of
Directors and CEO
since 2003.

Ferdinand Stutz,
member of the
Board of Directors
since 2003.

Max Vögeli,
member of the
Board of Directors
since 2004.

Reinhard Neubeck,
member of the
Board of Directors
since 1994;
Vice-Chairman
since 2003.

Fritz Studer,
member of the
Board of Directors
since 2003; Chair-
man since 2004.

Leo Steiner,
member of the
Board of Directors
since 2004.

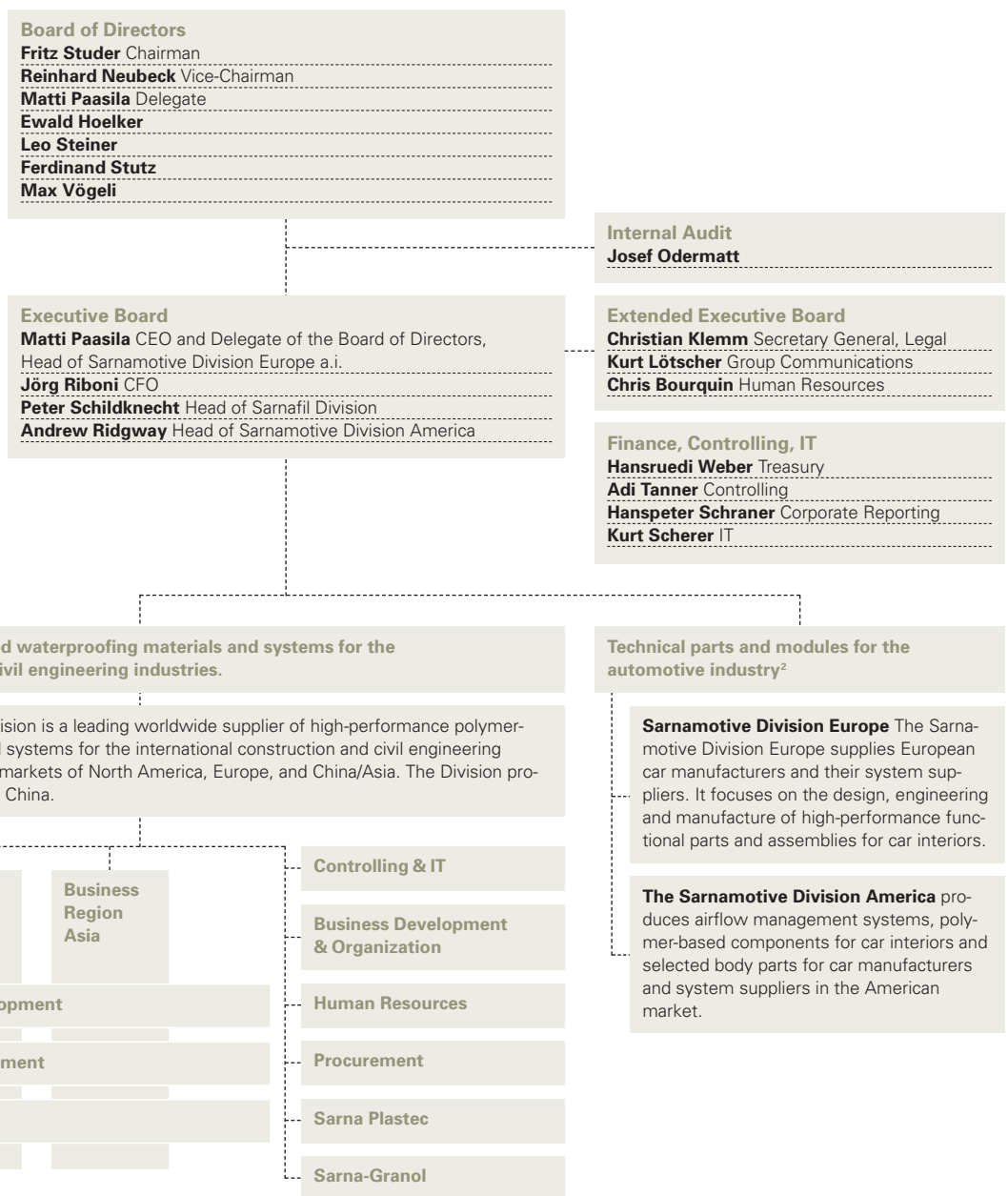
New Board of Directors

In 2003 and 2004, the Board of Directors of Sarna Polymer Holding Inc. was almost completely renewed. At the 2003 Annual General Meeting, for the purpose of long-term succession planning, Fritz Studer and Ferdinand Stutz were additionally elected onto the Board of Directors. Ewald Hoelker, Leo Steiner and Max Vögeli were elected at the 2004 Annual General Meeting.

The new Board members are experienced entrepreneurial personalities who bring their international knowledge of the construction, finance and automotive sectors to Sarna Polymer Holding Inc.

At the 2004 Annual General Meeting, long-serving Board members Walter Meyer – Chairman of the Board of Directors from 1992 to 2004 –, Ulrich Dätwyler and Theo Guldemann submitted their resignations. The employee shareholders' representative, Josef Odermatt, had already resigned at the end of 2003. Sarna Polymer Holding Inc. wishes to thank the former Board members for their many years of commitment.

Organization of Sarna Group



¹ New Organization since 1 January 2005

²The automotive business in Europe and America will be sold by the end of 2005.



The new factory in China, brought into service in October 2004, houses a modern production installation, in which polyester- and fiberglass-reinforced, multilayer membranes, new to the Chinese market, are manufactured. The new technology, together with the strengthened management team, offer ideal conditions for further growth in the Chinese market. (Large photo: Sarnafil China's project team for the new membrane; small photo on left: Production in Shanghai; small photo on right: New China Post building in Guangzhou)

On the path to growth: In a continued difficult economic environment, the Sarnafil Division was able to further strengthen its market position. Future growth potential is offered through geographic expansion as well as the extension of the existing product and system portfolio.

In 2004, the Sarnafil Division, with 1,004 employees, achieved sales of CHF 379 million. In local currency, this corresponds to an increase of 4.9 percent compared to the previous year. In Swiss francs, this results in an increase of 2.8 percent. The division result was influenced by the weak dollar and the markedly increased raw material prices worldwide in the second half of the year. Despite this difficult situation, the performance of Sarnafil can be once again assessed as very positive overall.

Strong worldwide

The Business Area Flat Roof achieved its goals and, in several countries, even exceeded them. In Europe, the Sarnafil Division was able to increase its market share, although in Germany, Europe's largest roofing market, construction volume overall once again diminished considerably. The declining market led to a sharp increase of bankruptcies in the construction industry, and further reductions in prices and volumes. In Switzerland, construction activity should now have reached the bottom. A slight improvement of local business was already noticeable during the financial year. In the past few years, England has developed into an important market within Europe. A favorable environment and the good performance of the sales team have again contributed to a very good result.

In the remaining European markets, a slight improvement in results compared with the previous year was achieved overall, and also in Russia, a few interesting projects, including a shopping center, were realized.

Business in the US flat-roof sector has developed into an important pillar of the Sarnafil Division in the past few years. Thanks to the positive investment climate in North America, the previous year's result was exceeded. The 2003 investment in a new production facility for three-meter-wide membranes offers customers real added value and is supporting the good positioning of Sarnafil in the American market. The important additional business with thermal insulation was considerably impacted as a result of the shortage of raw materials.

The headquarters of the National Geographic Society is the first renovation project with labeling according to the LEED (Leadership in Energy and Environmental Design) standard and the "Green Building Rating System" of the U.S. Green Building Council. Within the framework of the overall energy-recovery renovation, the old EPDM roofing material was replaced with a Sarnafil Energy Smart Roof, a white, light-reflecting roof membrane. This first application of these environmental standards in a renovation is exemplary.

In October 2004, in the presence of representatives of the local authorities and customers, the new production facilities in Shanghai came on stream.



Peter Schildknecht (left) has been managing the Sarnafil Division since January 2004. Before that, from 2001, he had been active in various functions within the Sarna Group as a member of the Executive Board.

On an overall area of 4,500 m² (48,440 sq.ft.), the new premises house a modern production facility where polyester- and fiberglass-reinforced, multilayer polymeric membranes, new on the Chinese market, are manufactured. It serves also as the new headquarters of Sarnafil China's organization. In order to be prepared for the ever more intensive competition from innumerable local and international suppliers, the management and sales team was strengthened in April. The business volume remained approximately at the same level as the previous year. Once again, numerous interesting projects for well-known clients, such as the China Post in Guangzhou, were realized. Various projects in Singapore, Hong Kong and other parts of Asia were completed, for example the roof of the Bangkok airport and the Monetary Building in Jakarta.

Satisfactory demand

In the Business Area Pitched Roof, the financial year 2004 developed very positively. Along with satisfactory demand in the relevant (niche) segments, the market introduction of Sarnafil TU 222, the innovative follow-up product to TU 122, had a positive effect.

The project for a "second-generation, weldable, Sarnafil TU" was successfully completed in the summer with its market introduction. The new TU, with its outstanding properties, is unique in the market. In Switzerland, the noticeable improvement of apartment construction, important for the pitched-roof sector, had a positive effect on business. However, as before, distinct overcapacity in the roof underlayment market is putting pressure on margins. Abroad, where Sarnafil concentrates on niche markets in the alpine regions and in Scandinavia, the roof underlayment business developed positively. Thus, for instance, in northern Norway, a university building was covered with Sarnafil TU 122, which has proved to be extremely well suited for use in alpine regions.

Market position maintained

In the Business Area Civil Engineering, developments in the year 2004 were mixed. In the tunnel business, various projects were postponed. The swimming pool business fulfilled the expectations. The market introduction of drinking-water applications likewise provides a reason for optimism with respect to market expectations.

In the important home market, market position was maintained, in Germany, strengthening of the sales structure continued to show positive effects, and in the USA, results in the civil engineering sector exceeded expectations.

Outlook

In the important German market, the economic situation will not change in the short term. Further structural corrections are expected. Prospects in the remainder of Europe are assessed with cautious optimism. EU expansion should positively affect quality requirements in the eastern markets. Although the economic environment in the USA is, today, difficult to assess, Sarnafil remains confident of being able to further improve its position in the American market. In China, with the new membranes and the management team in place since the end of 2004, the prerequisites for further successful market expansion are in place.



The Peace & Friendship Stadium in Piraeus, the venue for volleyball games at the 2004 Summer Olympics, was renovated using Sarnafil TS. The location directly at the harbor, with varying temperatures and wind strengths, as well as the salty sea air, represented special challenge.



Roofs with Decor Profile, used particularly in the USA and the UK, combine the design possibilities of metal roofs with the flexibility and watertightness of thermoplastic membranes. The diversity of colors and simple installation of the profiles offer designers and architects new levels of freedom for implementing creative ideas.

Management of Division

Head of Division

Peter Schildknecht

Head of Business Regions

Axel Ritzberger, Region Europe
Brian Whelan, Region America
Christoph Gressbach, Region Asia

Managing Directors/

Heads of Market Organizations

Roland Bischoff, Switzerland
Georg Lind, Germany
Brian Whelan, USA/Canada
Peter T. Wright, UK
Giovanni Lanzoni, Italy
Serge Ferlay, France
Peder Namenssen, Scandinavia
Frans J.M. de Bruijn, Benelux
Eduard Schilhart, Czech Republic/Slovakia
Stan French, China
Kurt Mäder, Sarna Plastec
Peter Siegrist, Sarna-Granol

Divisional Controller

Michael Baumann

Head of Business Development & Organization

Markus Senn

Head of Innovation & System Development

Hans-Rudolf Beer

Head of Marketing/Market Development

Ken McHugh

Head of Productions Technology

Thomas Custodis

Head of Human Resources

Rolf Meyer

Head of Procurement

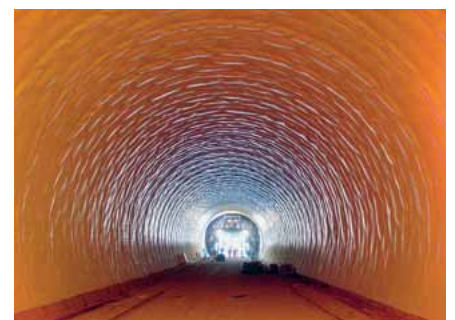
Claus Pfothenhauer



For the new Opera House in Copenhagen, Sarnafil made an important contribution by finding an optimal solution for critical details. For instance, on the terrace areas, the solid teak used over the Sarnafil required sealing where it had to be fixed through the membrane to the subconstruction.



The new generation Sarnafil TU 222, the weldable and semipermeable undertile membrane, was introduced to the market in 2004, seven years after the launching of Sarnafil TU 122. The 5-layer "high-tech" product offers advantages such as watertightness, slip resistance, mechanical strength and outstanding ecological properties.



In the Flüelen Tunnel, an optimized Velcro fastening system was used. The new Sarnafil system allows for an almost wrinkle-free laying, while offering simple correction possibilities. The membrane with special felt backing is attached to the strips of radially-laid Velcro fastener in the foundation. In this way, the tunnel's quality and serviceability are improved, and higher laying performances achieved.



The new VW Passat was the biggest production start-up in 2004/2005 for Sarnamotive Paulmann&Crone, and one of the biggest ever in the history of the company. Sarnamotive Division Europe supplies the decorative moldings for the dashboard as well as storage trays, the ashtray and decor for the central console, using the new "in-mold decoration" technology. (Large photo: Sarnamotive Paulmann&Crone's project team for the new VW Passat; small photo on left: Production in Lüdenscheid; small photo on right: VW Passat dashboard)

Challenges accepted: With the far-reaching restructuring process, new demanding customer projects and the use of new technologies with great future potential, Sarnamotive Division Europe faced several challenges simultaneously in 2004.

In the past year, Sarnamotive's European Division achieved sales of CHF 303 million, which represents in Swiss francs an increase of 3.5 percent over the previous year. In local currency resulted an increase of 1.6 percent. In 2004, Sarnamotive Europe employed 1,257 people.

The focus of attention in 2004 was the restructuring process of the automotive business. Restructuring started by the end of 2003 and concentrated on the subsidiary Sarnamotive Paulmann & Crone in Lüdenscheid (Germany). The objective was for Paulmann & Crone to achieve a normal profit level in 2006. Despite strict implementation of the measures, delays occurred in some restructuring steps. In addition, assembly-intensive activities were transferred to the Czech Republic earlier and faster than originally planned. This led to an increase in restructuring costs. In order to shorten the decision paths between the Executive Board and the restructuring team and with that, enforce the implementation of the restructuring, Matti Paasila, Delegate of the Board of Directors and CEO of the Sarna Group, temporarily took over management of the European automotive division in August. The previous division manager, Stefan Tschugmell, as general manager of the Czech subsidiary, concentrates on the scheduled implementation of the assembly-intensive activity transfer from Germany and the expansion of business in Eastern Europe.

Individualization of vehicles

The German automotive market achieved only low growth in 2004. Although manufacturers such as BMW, Volkswagen and Mercedes launched new generations of vehicles, the focus, however, laid rather on the individualization of existing models, primarily through high-quality decors as well as equipment packages with kinematic components. In the reported financial year, Sarnamotive Paulmann & Crone was able to start production on a few promising contracts, such as the development and production of the central console for the Bentley Continental. This technically sophisticated project was carried out under enormous time pressure. One of the biggest production start-ups in the history of Paulmann & Crone is the manufacture of decorative parts and the kinematic modules for the new Volkswagen Passat, for which the "in-mold decoration" process (IMD) was used for the first time. In this process, a printed plastic foil is drawn onto the injection-molding die, resulting in the printed pattern being reproduced on the visible side of the plastic part during the injection-molding process. This enables the reproduction of various patterns on the injection-molded parts and replaces painting. For this project, a daily throughput of up to 2,000 units has been calculated. The necessary capacity to do this is provided by a total of ten IMD injection-molding machines equipped with special clean-room housings.



Matti Paasila (left), CEO and Delegate of the Sarna Group's Board of Directors since 2003, additionally took over the management of Sarnamotive Division Europe on an interim basis in August 2004.

Innovation SkinForm presented

Sarnamotive Schenk again reported a good business result in 2004. Together with Krauss-Maffei Kunststofftechnik and Rühl Puromer, Sarnamotive Schenk developed the innovative SkinForm process, which for the first time enables components with high-quality polyurethane surfaces to be manufactured in a single production step. Sarnamotive Schenk is thus reacting to the ever more complex requirements of modern vehicle interiors. New design ideas for high-quality surfaces with high value stability are in demand. The technology is suitable for complex surfaces produced in large series, offers an agreeable leather-like feel and is distinguished by a high scratch resistance and low manufacturing costs. Along with the areas of seat coverings and center armrests, business with tank-flap modules was built up. With the additional volumes for vehicle models launched at the beginning of 2005, Sarnamotive Schenk will assume a leading position in Mercedes vehicles with these products.

Growth possibilities in the Czech Republic

In May 2004, the production facilities in Liberec were officially opened. At the end of 2004, Sarnamotive Bohemia employed approximately 150 people. Along with the central armrest and through-loading flap for the fifth-generation VW Golf and other products for Volkswagen, parts for Mercedes, BMW, Audi and Seat have also been produced in Liberec since then. Thanks to the ever stronger local automotive industries and the available qualitatively high-grade workforce at relatively low salary costs, the Czech Republic and its surrounding states offer great potential for Sarnamotive Division Europe. For this reason, in the future, more labor-intensive assembly activities will be transferred to Liberec. The plant offers sufficient growth possibilities, since the production area, currently occupying approximately 6,000 m² (64,580 sq.ft.), can be gradually tripled in the future.



The storage space with ashtray in the VW Golf Plus visually and functionally matches the modern interior, which is distinguished by its newly developed ergonomic concept.



The cup holders in the new Porsche Boxster take over the dynamic and clear design language of the newly designed interior.

Sale of Sarnamotive Switzerland

In December 2004, Sarnamotive Switzerland was sold to the German company Wafa Beteiligungs GmbH. With Wafa, and its high degree of competence in the automotive industry, a strong industrial purchaser has been found. The process developed by Sarnamotive Switzerland and the production in Emmenbrücke will be continued, and all the employees have been taken over.

Outlook

Due to increasing vehicle sales, the European automotive market should recover somewhat in the next years. Manufacturers and their suppliers will, in future, also intensify the transfer of their production to Central and Eastern Europe. In the medium and long terms, i.e. after the successful restructuring of Paulmann & Crone, there again will exist above-average growth potential for Sarnamotive Division Europe not only in their core competences, particularly for kinematic modules and subsystems for automobile interiors, but also for surface parts.

Management of Division

Head of Division

Matti Paasila, a.i.

Divisional Controller

Rainer Berner

Head of Sales/Marketing/ Business Development

Thomas Vetter

Head of Operations/ Continual Improvement

Matthias Drehkopf

Head of Program & Supply Chain Management

Wolfgang Braun

Head of Human Resources

Chris Bourquin



The central console of the Bentley Continental GT convinces thanks to its high functionality and elegant reserve. The central console contains the cup holders, storage space, an ashtray and a switch unit.



The seat covering of the Mercedes SLK, consisting of plastic and aluminum, provides a high-quality visual effect and stable back support. With this development, Sarnamotive Schenk is responding to the ever more complex requirements of modern vehicle interiors.



The ashtray in the new BMW Series 5 is ideally placed for use, and can be optionally replaced by additional storage space.



The new Mercedes M-Class, which will become available in the summer of 2005, should capture a leading position amongst sports utility vehicles (SUV) due to its impression of value and interior appearance. Assembled from various materials, the interior covering of the trunk lid developed by Sarnomotive Division America is installed in the Mercedes factory in Tuscaloosa, Alabama. (Large photo: Sarnomotive Blue Water's project team for the new M-Class Mercedes; small photo on left: Production in Marysville; small photo on right: Interior trunk covering of the M-Class Mercedes)

Further transformation progress: Thanks to intensified attention to the “new domestics” and the concentration on strategic products, Sarnamotive Division America was able to hold its position in 2004 in a fiercely fought market. Despite increased sales, the expectations for profit improvements were not fulfilled.

With 1,421 employees, Sarnamotive’s American division achieved sales of CHF 199 million last year, which represents a decrease of 2.1 percent in Swiss francs. In local currency it represents an increase of 4.9 percent.

Despite a few hold-ups, progress was made in the restructuring of the American automotive business in 2004. The closing of a factory in Marysville (Michigan) increased capacity utilization of the remaining production facilities. Due to higher engineering and product launch costs for newly acquired projects, as well as unexpectedly high material costs, the costs for sales, however, increased overproportionally. While these costs will strengthen the future market position, they increased 2004 costs. The price pressure on raw materials increased towards the end of the year, and this will entail additional cost-reduction measures and price discipline during the current year.

Shifts in the market

The sales volume in the American automotive market again stagnated in 2004. Again last year, the so-called “new domestics,” the non-American automobile manufacturers producing in the USA, Canada and Mexico, gained market share at the expense of the traditional “Big Three” US manufacturers. Sarnamotive Division America made increased efforts to promote business with the foreign manufacturers. The concrete initiatives defined within the framework of the restructuring process started in 2003 enabled new order acquisitions. In addition, the al-

ready existing cooperation with the “new domestics” was consolidated. In 2004, sales of new products for non-American manufacturers reached a high level. The tight market situation has also led to stronger competition amongst suppliers. More and more foreign companies are penetrating into the American market and putting local suppliers under pressure. Because of good working relationships with the OEM, the cooperation with national and foreign system suppliers means an opportunity for the Sarnamotive Division in the future, despite an increasingly difficult business environment.

Focussing in the product area

During the year under review, Sarnamotive Division America examined its existing product portfolio with the objective of concentrating on strategic products with a higher added value. Airflow management and kinematic subsystems for vehicle interiors were confirmed as strategic product areas, while special applications for seals made from various materials, such as, for example, door-frame finishers, were identified as new ones.

The area of airflow management was further consolidated last year. The Sarnamotive-developed air-exhauster design went into mass production in 2004. This new, innovative product, consisting of only two parts, requires no additional elements or finishing, in contrast to earlier models. This reduces production costs and increases quality. At the beginning of 2004, DaimlerChrysler decided to install the new development as standard in several vehicle types.



The door-frame finisher of the M-Class Mercedes offers esthetic advantages as well as a reduction of external noises. The multimaterial sealing applications, which have been newly defined as strategic products by Sarnamotive Division America, could already be extended satisfactorily in the past 12 months.



The side pocket in the Lincoln Aviator fulfills all passenger expectations with respect to roominess and user-friendliness. Adjustable, multifunctional kinematic subsystems correspond to a strongly growing customer requirement in the American market.



The sealing of the passenger compartment of the Dodge Ram reduces the wind noise in the passenger compartment. The design concept of the multimaterial sealing, originally developed for the Chrysler 300M, was successfully transferred to other Chrysler platforms.



The cover of the Mitsubishi Galant installed between the hood and windscreen draws fresh air into the vehicle's interior and prevents fouling of the heating, air-conditioning and ventilation module.



The seat covering in the Mazda Tribute is well suited to the marked interior comfort of the Mazda SUV flagship.

Management of Division

Head of Division
Andrew Ridgway

**Head of Sales/Marketing/
Business Development**
Douglas Cleland

Head of Engineering
Colin Bain

Head of Operations
Charles Jones

Head of Supply Chain Management
Phil Duncan

Head of Human Resources
James Breen

Managing Director Sarnatech BNL
Neil Partlett



Andrew Ridgway (left) has been heading Sarnamotive Division America since January 2005. Born in England, he joined Sarnamotive Division America as Vice President Manufacturing in mid-2004.

In order to cope with the increased volumes brought about by the additional demand, Sarnamotive Division America invested in a production unit with a rotary stack mold manufacturing cell, the first of its kind in the American automotive industry. Encouraged by this success, the new air exhauster was also offered to other manufacturers.

Multifunctional kinematic subsystems correspond to a strongly growing end-customer requirement in the American market too. Additional engineering know-how shall, therefore, strengthen this strategic area. Products such as cup holders, storage trays and navigation system housings will in the future be increasingly developed in-house.

The strategic product area of multi-material seal applications likewise developed satisfactorily in the past 12 months. In close cooperation with the development department of DaimlerChrysler, specialists from Sarnamotive Division America, for instance, quickly found a solution for the reduction of wind noise in the passenger compartment of the new Chrysler 300M. Thanks to an offensive marketing strategy, the design concept was transferred to other Chrysler platforms, such as the Challenger, Magnum and new Dodge Ram models. Further projects for finishings in the area of door frames are running with Mercedes and Nissan, while other customers are examining its use in future models.

Outlook

In 2005, Sarnamotive Division America will continue concentrating on strategic products. While sales of strategic products in the reported financial year amounted to around 30 percent of total sales, this share should increase continuously in the coming years and should reach 75 percent by 2009.

Although a big rally is not apparent for the American automotive market in 2005 either, Sarnamotive Division America is counting on continuous growth through increased cooperation with the “new domestics” and the expansion of activities involving strategic products. Cost reductions and process optimization will be intensified in production, engineering and administration. The measures to compensate the raw material price increase are the first priority in short-term.

Sarnatech BNL – continuous success in a niche market

Integrated from an organizational point of view into the American automotive division, Sarnatech BNL, the British designer and manufacturer of injection-molded bearings and associated assemblies, managed to hold its strategic course despite tough economic conditions, to demonstrate growth and produce a positive result in 2004. The company, which received the award of 2004 Plain Papier Copier “Supplier of the Year” from Ricoh UK Products Ltd, a leading European manufacturer of printing and photocopying machines, continues to focus on the five key market sectors of business machines (paper path), water (spa and shower installations), electronic and automotive, as well as the “traditional” BNL business, such as, conveyor belts and sliding drawer systems. In particular, during the financial year under review, a variety of interesting projects were acquired and implemented such as a complex custom-designed pan and tilt bearing assembly for access and video control specialist Bewator Ltd, which saw BNL take on full project management of the sub-assembly to offer greater added value to its bearing solution.



Sustainability and environmental protection are, for the Sarna Group, primary concerns that influence decision processes. There is potential for optimization throughout the whole life cycle – from product development, via production processes and logistics, through to recycling of production wastes and old products. (Large photo: Samafil's environmental management project team; small photo on the left: recycling plant at Sarnen; small photo on the right: Sarnen logistics center)

The environment is of great importance: The Sarna Group attaches great value to environmental issues in all of its business areas and all operational activities. Compliance with demanding environmental standards and a considerate approach with respect to natural resources are given high priority.

The continual improvement of environmental performance is an integral part of the Sarna Group's corporate strategy. In all fields of activity, clear goals for improving the environmental performance of products, systems and manufacturing processes are set, taking also economic aspects into consideration. Responsibility for implementation lies with the individual companies at the production sites. The Sarnafil Division, with production in Sarnen (Switzerland), Sarnamotive Blue Water in Marysville (USA), Sarnamotive Paulmann & Crone in Lüdenscheid (Germany) and Sarnamotive Schenk in Esslingen (Germany), have already had a certified environmental management system according to ISO 14001 for several years. Certification is being examined for the Sarnafil Division's other two production sites in Canton (USA) and Shanghai (China). The efficiency of the environmental management system is ensured by means of on-site internal environmental audits.

Four categories of environmental influences

Operational eco-controlling systematically records the relevant material and energy flows at the sites. This allows for the evaluation, planning and monitoring of the production processes, and thus forms a basis for defining environmental goals and programs as well as prioritizing relevant measures on the basis of their importance relative to the environmental policy.

On the basis of Sarna-defined environmentally relevant parameters, resource consumption and the environmental loading caused by production processes is measured, summarized in categories and evaluated country-specifically in relation to environmental policy. Data collection at the individual production units has shown that four categories, namely resource consumption, hazardous substances, energy consumption, and recycling and disposal wastes, are essentially the most important. These action areas are also the focus of attention for the Sarna Group. There is potential for optimization throughout the whole life cycle – from product development, via production processes and logistics, through to recycling of production wastes and old products.

International coordination

In the reported year, the Sarnafil Division has paid particular attention to the logistics of raw material procurement, the reduction of waste and further substitution of hazardous substances. By adapting lot sizes and making optimum use of load capacities, delivery transportation was further reduced for the same amount of incoming goods. The existing waste concept conforms to the highest standards. There is a reduction potential with respect to packing materials and in-house non-usable production wastes. Within the framework of the European solution for the recycling of used polymer-based membranes,



Ecology with real customer benefits

The Sarnafil Division can look back on a long-standing success story with respect to the eco-balance of its products and systems. In the past twelve years, in collaboration with external specialists, numerous pioneering projects, whose insights have aided the development of new Sarnafil solutions, have been realized in this sector. In 2004, in close cooperation with the environmental consultancy Carbotech AG, an eco-efficiency study was produced for American flat-roof systems. The scientifically based eco-efficiency study "Ecological and Economical Balance Assessment of US Flat Roof Systems" was, for the first time, concerned with the "life-cycle impacts" and "life-cycle costs" of various flat-roof systems. In it, the environmental influences and costs of various roofing systems were set over the whole life cycle in relation to the

benefit in the operating phase (heating, cooling) in various climatic regions of the USA. The results show that the strategy to manufacture long-life systems with high reflectivity is the right one. The insights from this study are helping the Sarnafil Division with the positioning and marketing of its light-colored Energy Smart Roof membranes, which are particularly good at reflecting thermal radiation. Depending on the climatic region, thanks to the lower warming-up of the highly reflective membrane surfaces compared to dark-colored roofs, up to 50 percent of cooling energy can be saved. (Photo on the left: Building with light-colored Energy Smart Roof membranes; photo on the right: Thermal image proofs the roof as no source of excessive heat)

the existing successful recycling system of the Swiss market organization is being integrated into the European "Roofcollect" system coordinated by the European Single Ply Waterproofing Association (ESWA).

Thanks to great efforts in the Innovation and System Development area in the past few years, hazardous substances have been continually replaced by non-hazardous alternatives. This permanent task of ridding the product portfolio as much as possible of hazardous substances, subject to technical, ecological and economic prevailing conditions, will continue to preoccupy Sarnafil in the coming years.

Longevity studies

Sarnafil Division products place high demands on long-term functionality and long life. In 2004, therefore, extensive studies on the longevity of Sarnafil G/S and Sarnafil T were again carried out. The worldwide examinations on Sarnafil G/S concerned a sample of roofs between 18 and 35 years of age exposed to the elements. Various properties, such as elongation at break, tear resistance and mechanical resistance of the roof samples, were measured in the laboratory. The results confirm the previous, very positive experiences, namely that the quality of the 25-year-old roofs are mostly still above the standard requirements for new material.

For Sarnafil T, the examination already carried out for its ten years of existence, was repeated last year for the now up to 15-year-old roofs. The prognosis at that time of a "lifespan of several decades" by the neutral Institute of Building Protection, Building Materials and Building Physics in Fellbach (Germany) was again overwhelmingly confirmed.

Focus on waste reduction

In the Sarnamotive Division's German operations, the focus last year was on measures to reduce waste. Thus, recycling concepts for increasing the recycling proportion of production wastes have been worked out and implemented. Through standardization of the waste fractions and the drawing-up of guidelines, waste separation can be more clearly organized and simplified. With systematic monitoring, evaluation and removal of compressed-air leaks, compressed-air losses were significantly reduced and significant energy savings achieved.



Increased eco-friendliness

Since the end of 2003, Sarnamotive Paulmann & Crone, part of the European automotive division, has been using a new paint-spraying installation at its Lüdenscheid site to finish high-quality functional parts for vehicle interiors. Contrary to conventional machines that use solution-based paints, the new installation uses more eco-friendly waterbased paints. The use of so-called hydro paints, which results in a huge reduction in the amount of hazardous substances employed, causes no loss in quality of the finished product. Quite the opposite: Thanks to the highly automated process, parts are treated more uniformly, which results in a superior quality while maintaining the same scratch resistance.

Functional parts for automobile manufacturers such as BMW and VW pass through the whole process chain in one pass. After cleaning with ionized air, gas flaming is carried out, which removes small burrs and impurities from the parts, as well as increasing their paintability. The parts are then automatically transported further into the actual painting cabinet, from where they pass finally to the drying room. Excess paint from the painting process is rinsed and collected with the help of a spraying installation in the painting cabinet. The water-paint mixture is subsequently separated and the paint disposed of.

Sarnamotive Paulmann & Crone has thus succeeded in substantially reducing the amount of hazardous substances and, at the same time, increasing product quality. (Photos: New paint-spraying installation in Lüdenscheid)

The American automotive production sites have also concentrated on measures to reduce waste and to redirect waste streams into external recycling.

Education and dialog

Employee training and awareness creation with respect to environmental concerns is an important part of the Sarna Group's environmental activities. Companies inform about environmental goals and activities at regular intervals. In addition, every year, employees undergo environmental training, where they are instructed according to their daily tasks. Inquiries from the general public and customers are answered in a proper manner. In addition, information concerning activities in the environmental field is available on the Internet. Sarnafil International, for instance, provides data for various stakeholders with background information in the environmental report, which is available online at www.sarnafil.com.

Corporate Governance at Sarna: The continuous improvement in Corporate Governance is a declared objective of the Board of Directors. The reporting structure corresponds to the SWX directive.

Group and shareholding structure

Group structure

Apart from Sarna Polymer Holding Inc., with headquarters in Sarnen (Switzerland), there are no quoted companies consolidated in the Sarna Group. The registered shares of Sarna Polymer Holding Inc. are quoted on the SWX Swiss Exchange (security code: 1421775). The stock exchange capitalization as of 31 December 2004 was CHF 283 million. An overview of the legal structure can be found on page 53. The organization of the Sarna Group is shown on page 7.

Significant shareholders

The following shareholders hold more than 5% of the registered shares:

- Tweedy Browne Company LLC, New York: >10.0%
- Sterling Investment Group Limited, Tortola, British Virgin Islands: > 5.0%
- Sarna Patent und Lizenz AG and Sarna Stiftung: 9.2%

Cross-shareholding

There is no cross-shareholding outside the Sarna Group.

Capital structure

Capital

Nominal share capital comprises 2,400,000 registered shares with a nominal value of CHF 1. Share ownership is broadly spread, and there are no majority shareholders. As of 31 December 2004, there were 2,921 registered shareholders. Sarna Polymer Holding Inc. did not issue any profit-sharing or bonus-share certificates.

Conditional and authorized capital in particular

There is no conditional or authorized capital.

Changes in capital

At the Annual General Meeting of 3 May 2002, a reduction in capital from CHF 14,400,000 to CHF 2,400,000 was approved to make a repayment of differential nominal value to shareholders. At the same time, the nominal value of registered shares was reduced in a ratio of 1:10 from CHF 10 to CHF 1. The proof of equity can be found on page 37.

Limitations on transferability and nominee registrations

At the Annual General Meeting of 3 May 2002, the restriction on voting rights, whereby shareholders may not acquire more than 3% of all voting shares, was lifted without substitution. Nominees are registered without voting rights.

Convertible bonds and options

There are no convertible bonds. The option plan for the Board of Directors, Executive Board and top management floated in December 1999 terminated on 27 December 2004. As of that date, the options became worthless. No new option plan has been launched.

Board of Directors

The functions and duties of the Board of Directors are defined in the Swiss Code of Obligations, in the Articles of Incorporation and in the Organization and Rules of Procedure of Sarna Polymer Holding Inc. The Articles of Incorporation can also be consulted on the website at www.sarna.com.

Members of the Board of Directors

As of 31 December 2004, the Board of Directors of Sarna Polymer Holding Inc. comprised seven members. At the Annual General Meeting of 29 April 2004, three new members were elected, following the two new members already elected the previous year.

As from 31 December 2002, the interim dual office of Chairman of the Board/CEO was abolished. Since 1 January 2003, the CEO is also a Delegate of the Board of Directors. Apart from these exceptions, no member of the Board of Directors served as a member of corporate management during the past three years. Non-executive members of the Board of Directors have no significant business connections to Sarna Polymer Holding Inc., or the Sarna Group. The representation of employee stockholders was abolished by a statute modification at the Annual General Meeting of 29 April 2004.

Cross-involvement

There are no cross-memberships as regards the boards of Sarna Polymer Holding Inc. and other companies.

Internal organization/Definition of responsibilities

The Board of Directors of Sarna Polymer Holding Inc. is the senior managing body of the holding organization and, at the same time, the highest administrative organ of the Sarna Group. It establishes the strategic, organizational, financial planning and accounting guidelines. Notwithstanding non-transferable and inalienable obligations, the main tasks of the Board of Directors, according to law, are as follows:

- Supervision of the company
- Approval of Group and divisional strategies, medium-term plans and budgets
- Definition of financial responsibility and management organization
- Decision-taking with regard to acquisitions and divestments
- Appointment and possible recall of members of the Executive Board
- Responsibility for the Annual Report and the Annual General Meeting

According to the Articles of Incorporation, the Board of Directors comprises five to nine members, who have been elected at the Annual General Meeting to serve a term of three years. There is no restriction on the number of terms served. On reaching the age of 68, members of the Board of Directors are required to hand in their resignation at the following Annual General Meeting. The Board of Directors constitutes itself. The majority of its members do not fulfill any operative management tasks within the company. Its organization avoids any conflicts of interest of its members with the company. In particular, it ensures observation of the regulations of stock market legislation, takes measures to prevent insider trading and guarantees viable internal auditing.

The Board of Directors convened for seven full-day meetings during the reported financial year. In addition, a three-day closed-door meeting was held.

Composition of the Board of Directors until 29 April 2004

Name	Born	Position	Joined	Elected until
Walter Meyer ^{1,2}	1937	– Chairman from 1992 until 4/29/2004 – Chief Executive Officer from 12/1/2001 until 12/31/2002	1980	2004
Reinhard Neubeck ²	1939	– Vice-Chairman since 1/1/2003 – Non-executive member	1994	2006
Matti Paasila	1947	– Delegate of the Board of Directors and Chief Executive Officer since 1/1/2003 – Non-executive member from 1998 to 2002	1998	2004
Ulrich Dätwyler ^{1,2}	1941	– Non-executive member – Vice-Chairman until 12/31/2002	1986	2004
Theo Guldemann ¹	1948	– Non-executive member	1987	2004
Fritz Studer	1943	– Non-executive member	2003	2006
Ferdinand Stutz	1957	– Non-executive member	2003	2006

¹ Member of the Audit Committee² Member of the Nomination and Compensation Committee**Composition of the Board of Directors since 30 April 2004**

Name	Born	Position	Joined	Elected until
Fritz Studer ^{1,2}	1943	– Chairman since 4/30/2004 – Non-executive member	2003	2006
Reinhard Neubeck ²	1939	– Vice-Chairman since 1/1/2003 – Non-executive member	1994	2006
Matti Paasila	1947	– Delegate of the Board of Directors and Chief Executive Officer since 1/1/2003 – Non-executive member from 1998 to 2002	1998	2007
Ferdinand Stutz ²	1957	– Non-executive member	2003	2006
Ewald Hoelker	1945	– Non-executive member	2004	2007
Leo Steiner ¹	1944	– Non-executive member	2004	2007
Max Vögeli ¹	1951	– Non-executive member	2004	2007

¹ Member of the Audit Committee² Member of the Nomination and Compensation Committee

Fritz Studer, Swiss, banking professional, Advanced Management Program, Harvard Business School, Boston, USA; member of the Board of Directors since 2003; Chairman since the 2004 AGM; Chief Executive Officer of the Lucerne Cantonal Bank until the end of 2003; member of the Board of the Lucerne Cantonal Bank since 2004, proposed as Chairman at the 2005 AGM; member of the Board of Directors of the Swiss National Bank, Bern, Switzerland.

Reinhard Neubeck, German, Dr. rer. nat., Technical University of Hanover, Germany; member of the Board of Directors since 1994; Vice-Chairman since 2003; joined Ciba-Geigy AG, Basel, Switzerland, in 1972; member of Group Management of Ciba Specialty Chemicals Inc., Basel, Switzerland, from 1996 to 2001.

Matti Paasila, Finn, M.Sc., University of Oulu, Finland; Advanced Management Program, Harvard Business School, Boston, USA; member of the Board of Directors since 1998; Delegate of the Board of Directors and Chief Executive Officer since 1/1/2003; Chief Executive Officer of the Rieter Automotive Systems Division, Winterthur, Switzerland, from 1994 to 2002.

Ferdinand Stutz, Swiss, studied casting technology at the University of Duisburg, Germany (Dipl.-Ing.); member of the Board of Directors since 2003; since 1998 Head of Georg Fischer Automotive, member of the Executive Committee of Georg Fischer, Schaffhausen, Switzerland.

Ewald Hoelker, US citizen, MBA from the University of North Texas, USA; member of the Board of Directors since 2004; from 1994 until end 2004, as a member of Hilti Group Management (Schaan, Principality of Liechtenstein), responsible worldwide for all markets and sales organizations; retired end 2004, as planned, from Hilti Group Management, and was elected to the Hilti Board of Directors in December 2004 with effect from 1 January 2005.

Leo Steiner, Swiss, M.Sc. from the ETH (Swiss Federal Institute of Technology, Zurich); member of the Board of Directors since 2004; Delegate of the Board of Directors and CEO of the Komax Group (Dierikon, Switzerland) since 1992; member of the Board of Directors of Schaffner Holding AG since 2002, Chairman since 2005; member of the Board of Directors of Kardex Holding AG since 2004.

Max Vögeli, Swiss, graduate in Economics of the University of Applied Sciences, Zurich; SKU, Zurich, Advanced Management Programs; member of the Board of Directors since 2004; freelance since 2003 with enterprise interim CxO, Brugg (Switzerland) for interim executive duties; from 1990 to 2002 various management positions in finance for the Lafarge Group, i.a. CFO of Cementia Holding AG, Zurich, Switzerland.

Committees

The Board of Directors sets up an Audit Committee as well as a Nomination and Compensation Committee. It has defined the tasks of these committees in special regulations. The committees analyze certain business and personnel issues in depth and report back to the Board of Directors for the preparation of its decisions or for the exercise of its supervisory function. The overall responsibility for the tasks assigned to the committees remains with the Board of Directors. All committee positions are to be occupied by non-executive members of the Board of Directors.

Audit Committee

Chairman: Max Vögeli

Members: Fritz Studer, Leo Steiner

The Audit Committee consists of at least three up to a maximum of four members of the Board who are independent of the Group and who do not exercise any management tasks within the Group. The members are appointed after proposal by the Nomination and Compensation Committee and on the basis of a Board of Directors' decision for a service period of three years. As a rule, the CEO and the CFO, as well as the Head of Internal Audit, are invited to the meetings. The Audit Committee consults with representatives of the external auditor at least once a year. During the reported financial year, the Audit Committee held six meetings, including two extraordinary meetings. Apart from the regulatory tasks, the following special business was handled: adoption of regulations for the Audit Committee and internal auditing; definition of the bases for developing a strategic audit plan; pursuance of the IFRS transition project; special financing and communication questions.

Generally speaking, the tasks of the Audit Committee include:

- Monitoring of financial reporting integrity as well as of the Group and divisions-internal control system, including risk management, particularly in the areas of finance and accountancy, and compliance with legal and company-internal rules
- Assessment of the Group report, the annual and intermediate statements, as well as the explanatory and audit reports with reporting and proposal to the Board of Directors

- Assessment of compliance with financial accounting standards within the Group
- Selection of the external auditor, monitoring of the independence and performance of the external auditor, approval of their audit plans, fees and corresponding budgets
- Establishing the audit scope, annual planning, organization structure as well as management, effectiveness and independence of the audit.

Nomination and Compensation Committee

Chairman: Fritz Studer

Members: Reinhard Neubeck, Ferdinand Stutz

The Nomination and Compensation Committee consists of at least three to maximum four non-executive members of the Board of Directors, the majority of whom are independent. Members are appointed by decision of the Board of Directors for a three-year service term. The CEO participates at the meetings in an advisory capacity, except in the case of his own compensation. In the past year, the committee convened for six meetings. The main tasks of the committee include drawing up the requirements and criteria for the nomination and compensation of the members of the Board of Directors and Executive Board.

The tasks in the compensation and nomination area include, in particular:

- Drawing up the basic conditions for employees' market- and performance-related collective compensations
- Examining the bonus program for members of the extended Executive Board, at least once a year
- Long-term succession planning for the positions of Chairman, members of the Board of Directors and Executive Board
- Supporting the Board of Directors in the performance assessment of its members, members of the committees and members of the extended Executive Board.

Information and controlling tools regarding the Executive Board

The Sarna Executive Board draws up monthly, quarterly, half-yearly and yearly individual financial statements of its subsidiaries for the attention of the Board of Directors. These figures are consolidated for each division and for the Group. These financial statements are compared to the previous year's figures and the budget, and commented on by the Executive Board accordingly. The CEO, CFO and division managers report on business developments of the Sarna Group at each meeting of the Board of Directors. The CEO makes a monthly report to the Board of Directors.

Internal audit constitutes an additional controlling tool for the Board of Directors. It is directly subordinated to the Audit Committee. The Head of Internal Audit is supported in the exercise of his tasks by independent experts. Tasks include audits of quality, safety, regularity, economy and functionality of structures, processes and systems, as well as management performance with regard to the organization's strategy and goals, and the implementation of business-policy guidelines.

The most important internal audit reports are sent to the members of the Audit Committee and to the Executive Board.

Risk management

In the reported financial year, the basis for a Group-wide risk-management system was elaborated with the support of external specialists. In a first phase, the relevant risk areas were revealed by means of interviews with selected Group employees and Group-wide relevant risks identified and assessed. Simultaneously, the current degree of formalization for dealing with risks was evaluated, and the need for adaptation in the various areas identified.

Based on the consolidated results, the internal project group defined the basis of the future Sarna risk-management system. December's divestment decision concerning the automotive business changed the starting point for Group-internal risk management, and called for a differentiated approach. In the Sarnamotive divisions, coordination of division risk-management activities with Group-wide risk management is being waived to a large extent, as opposed to Group functions and the Sarnafil Division legal entities, where risk assessment will take place in the coming months. The results of the latter will significantly influence the structures of the newly planned periodical risk report and of the risk-management strategy, as well as the measures taken by the Sarna Group.

Executive Board

The tasks of the Chief Executive Officer, Executive Board as a body and the further members of Executive Board (EB) are defined in the Organization and Rules of Procedure. In addition to the Delegate of the Board of Directors/CEO, the Divisional Heads and the Chief Financial Officer also belong to EB. The Secretary General/Head of Legal Services, the Head of Group Communications as well as the Head of Human Resources belong to the extended Executive Board, and participate in meetings of the EB in an advisory capacity.

Departures during period under review

Stefan Tschugmell handed over the management of Sarnamotive Division Europe as of 27 August 2004, and retired from the Executive Board. As General Manager of Sarnamotive Bohemia, he handles setting up of the automotive business in Eastern Europe. In January 2005, Douglas C. Chapple, Head of Sarnamotive Division America, left the Sarna Group.

Management contracts

Sarna Polymer Holding Inc. has no management contracts with any third parties. In the reported financial year, some positions at the second management level of Sarnamotive Division Europe were occupied for a limited period by external personnel.

Members of Executive Board

Name	Born	Function	Joined
Matti Paasila	1947	– Delegate of the Board of Directors – Chief Executive Officer since 1/1/2003; ad interim Head of Sarnamotive Division Europe since 8/27/2004	2003
Jörg Riboni	1957	– Chief Financial Officer	1997
Douglas C. Chapple	1951	– Head of Sarnamotive Division America until 1/19/2005	2001
Andrew Ridgway	1965	– Head of Sarnamotive Division America since 1/20/2005	2004
Peter Schildknecht	1962	– Head of Sarnafil Division since 1/1/2004	2001
Stefan Tschugmell	1966	– Head of Sarnamotive Division Europe until 8/27/2004	2003

Matti Paasila, Finn, Delegate of the Board of Directors and Chief Executive Officer (CEO); since 27 August 2004, ad interim Head of Sarnamotive Division Europe; graduate in engineering from the University of Oulu, Finland; various management positions in internationally operating Finnish companies, 13 years of which in managerial positions at Nokia, most recently as member of Group Management responsible for strategy, investment, and technology; CEO of Rieter Automotive Systems, member of Group Management of Rieter Holding AG from 1994 to 2002; member of Board of Directors of Sarna Polymer Holding Inc. since 1998; Delegate of the Board of Directors and CEO since 1 January 2003.

Jörg Riboni, Swiss, CFO; graduate in Economics from the University of St. Gallen, Switzerland; Certified Swiss Accountant; various positions in the fields of auditing and consulting; Head of Controlling and Finance of the Europe Division of the Cosa Liebermann Group from 1991 to 1995; CFO at Jelmoli AG from 1995 to 1997; CFO Sarna since 1997; member of panel of experts for financial accounting of the Swiss Exchange and member of the Swiss GAAP FER Commission.

Douglas C. Chapple, Canadian and American, Head of Sarnamotive Division America until 19 January 2005; graduated in mechanical engineering from Kettering University, Michigan, USA; MBA from the University of Western Ontario; various leadership functions in production and sales at General Motors; full responsibility for activities in the automotive sector of a leading American polymer processing company until 2001.

Andrew Ridgway, English; Head of Sarnamotive Division America since 20 January 2005; Bachelor of Engineering from Coventry University, UK; various production management tasks at Nissan in England and Japan, as well as General Motors in Germany and America; until 2004, Vice-Chairman of Operations of the Automotive Glass Division of Guardian Automotive Inc.; Vice-Chairman Manufacturing of Sarnamotive Division America from mid-2004 until 19 January 2005.

Peter Schildknecht, Swiss, Head of the Sarnafil Division since 1 January 2004; graduate in mechanical engineering with training in technical scientific management from the Swiss Federal Institute of Technology in Zurich, Switzerland; Dr. ETH Zurich; various management functions within Von Roll Group from 1995 to 2001; Head of the Sarnatech Division until December 2002; ad interim Head of Sarnamotive Division Europe from September 2002 to February 2003; in 2003, responsible for strategic projects in the area of company development.

Stefan Tschugmell, Austrian, Head of Sarnamotive Division Europe until 27 August 2004; engineer (dipl. Ing.); various positions in German companies in automotive supplier industry; Managing Director of various HP Pelzer Group production plants in Europe; Managing Director responsible for international sales and marketing of the Pelzer Group until 2003.

Compensations, shareholders and loans

Content and method of determining the compensation and the shareholding programs

Members of the Board of Directors are paid a fixed fee for their work, which is proposed by the Nomination and Compensation Committee and approved by the Board of Directors as a whole. Compensation for members of the Executive Board is proposed by the Nomination and Compensation Committee and approved by the Board of Directors. Senior managers of the Sarna Group are compensated according to their successes. The variable component depends on the achievement level of performance goals defined annually in advance.

Compensation for acting members of executive bodies

The six non-executive members of the Board of Directors received total remuneration amounting to CHF 646,333 in the financial year 2004. The executive member of the Board of Directors and the members of Executive Board were paid a total amount of CHF 3,148,760 in the year under review.

Compensation for former members of executive bodies

No compensation was made to members of the Board of Directors or Executive Board who left in the preceding year or earlier.

Share allocation in the year under review

No registered shares were allocated to members of the Board of Directors or Executive Board during the financial year 2004.

Share ownership

A total of 9,945 shares were collectively held by the executive member of the Board of Directors, members of the Executive Board and associates on 31 December 2004.

A total of 200 shares were collectively held by non-executive members of the Board of Directors and associates on 31 December 2004.

Options

The option plan floated in 1997 ran out on 27 December 2004. No new option program has been launched.

Additional fees and remunerations

During the year 2004, the members of the Board of Directors and Executive Board as well as associates received no further fees or other remuneration for supplementary services to Sarna Polymer Holding Inc. or one of its group companies that amounted to or exceeded half of the regular compensation amount.

During this and the previous year, members of the Board of Directors, Executive Board and associates are not and have not been involved in any business dealings beyond their normal activities relating to Sarna Polymer Holding Inc. or any of its subsidiaries, nor were they involved in any other activities, which, in form or in fact, were unusual yet fundamental to Sarna Polymer Holding Inc.

Loans to executive bodies

Sarna Polymer Holding Inc. and its subsidiaries had not granted any securities, advances, credits or loans to members of the Board of Directors or of the Executive Board or associates as per 31 December 2004.

Highest total compensation

The highest total compensation, awarded to the Delegate of the Board of Directors and CEO during the year under review, was CHF 764,362.

Shareholders' participation rights

Voting rights and representation restrictions

At the Annual General Meeting, every share registered in the share register as having voting rights is entitled to one vote. Representation at the Annual General Meeting is only permitted by another shareholder who has been granted power of attorney in writing. Representation through a depositary or corporate body or an independent proxy is reserved.

Statutory quorum

Resolutions for changing or abolishing provisions of the articles of incorporation concerning

- Transfer of registered shares
- Representation of shares at the Annual General Meeting
- Number of members of the Board of Directors and their term of office
- Relocation of the domicile of the company abroad
- Recall of more than one third of the members of the Board of Directors
- Resolutions concerning the modification and cancellation of the present statute regulation must assemble at least three quarters of the represented voting shares.

Dissolution of the company requires the agreement of at least three quarters of all the voting shares.

Convocation of an Extraordinary General Meeting and agenda

According to a resolution of the Annual General Meeting of 2 May 2003, an Extraordinary General Meeting and the setting of an agenda for a matter to be discussed can be requested by one or more stockholders representing at least 7% of the share capital. The convocation and agenda setting have to be requested in writing with details of the matters to be discussed and the motions at least 60 days prior to the meeting.

Inscriptions in the share register

According to a resolution of the Annual General Meeting of 2 May 2003, no inscriptions are made in the share register during a period of four working days before an Annual or Extraordinary General Meeting.

Change of control and defense measures

Duty to make an offer

There are no statutory regulations regarding opting out or opting up (art. 22 SESTA).

Clauses on change of control

Neither the Board of Directors nor the Executive Board have any significant obligations that interfere with the independence of either of them.

Auditors

KPMG Zug has been the auditor of Sarna Polymer Holding Inc. and of the Sarna Group since 1999. The auditor in charge has been responsible for carrying out the audit since 1999.

KPMG invoiced the Sarna Group about CHF 898,000 in the financial year 2004 for services in connection with auditing the annual accounts of Sarna Polymer Holding Inc. as well as the subsidiaries of the Sarna Group.

KPMG additionally invoiced the Sarna Group about CHF 631,000 for services with regard to tax consulting and due diligence.

The Audit Committee of the Board of Directors annually evaluates the performance, fees and independence of the auditing company and the Group auditor, and submits a proposal to the Board of Directors as to which external auditor should be proposed for election at the Annual General Meeting. The audit results are discussed with the external auditor.

Information policy

Sarna Polymer Holding Inc. informs shareholders about the state of the Group's business by means of half-yearly shareholders' letters (March/April: year-end results; August: half-year results).

The annual report is delivered to all registered shareholders, together with the invitation to the Annual General Meeting. Media and financial analyst conferences are held at least once a year. The annual media conference takes place in March/April and the Annual General Meeting in April/May.

This and further information – such as regular media releases on the operational business or information on the current share prices – can be found on the Internet at www.sarna.com.

Sarna publishes facts that are relevant to trading under the ad hoc disclosure obligation of the SWX Swiss Exchange.

Transitional year in a difficult environment: By focusing on the successful Sarnafil Division, and after the 2004 impairment charges, Sarna is well positioned for a positive future.

Sales of Sarna Group increased from CHF 864.5 million to CHF 880.8 million in 2004. Including exceptional items of CHF 82.4 million an operating loss of CHF 78.7 million resulted. Net loss amounts to CHF 98.9 million.

Significant exceptional items

The business year 2004 was marked by the decision to spin-off the entire automotive operations which should be completed by the end of 2005. The Board of Directors made this decision late in 2004, since the on-going substantial restructuring process needs more time than planned. In addition, the Board of Directors and the Group Executive Board are convinced that the potential of the automotive companies can be better exploited by a new owner. The decision to discontinue and sell these operations has led to impairment charges of CHF 75 million. At the same time, the divestment of Sarnamotive Switzerland in December 2004 resulted in a loss from disposal of CHF 7.4 million.

The Sarnafil Division once again can look back on a year with very successful operations. With sales reaching CHF 379.1 million, it generated an operating result of approximately CHF 42 million. For the two automotive divisions, however, an operating loss due to restructuring costs as well as higher material and engineering expenses had to be recorded.



Jörg Riboni (standing) is a member of the Group Executive Board. As Chief Financial Officer (CFO) he is responsible for Finance, Controlling and IT.

Positive outlook

With the divestment of the automotive operations until the end of 2005, Sarna will focus on expanding the successful Sarnafil Division. The group is assuming that the recognized impairment charges will be sufficient. The sale of the automotive operations thus should lead to a significant increase in the shareholders' equity ratio and a substantial reduction of the current net debt of approximately CHF 150 million.

Sarna is currently in the process of adapting its financial reporting to International Financial Reporting Standards (IFRS) and will present the consolidated financial statements 2005 for the first time in accordance with IFRS.

Consolidated financial statements of Sarna Group

Consolidated income statement in CHF 1,000

Income		2004	in %	2003	in %
Gross sales	1]	880,765	100.0	864,529	100.0
Other revenues		5,645	0.6	6,219	0.7
Revenue deductions		-24,193	-2.7	-21,980	-2.5
Net revenues	2]	862,217	97.9	848,768	98.2
Changes in inventories		-6,545	-0.7	-1,805	-0.2
Total revenues		855,672	97.2	846,963	98.0
Expenses		2004	in %	2003	in %
Material expenses	3]	464,041	52.7	438,164	50.7
Personnel expenses		253,959	28.8	257,073	29.7
Maintenance, supplies and energy		33,477	3.8	35,424	4.1
Depreciation and amortization of operating assets	12]	39,858	4.5	42,110	4.9
Administration and selling expenses		47,032	5.3	49,582	5.7
Other operating expenses	4]	13,594	1.5	12,820	1.5
Total expenses		851,961	96.6	835,173	96.6
Operating result before special items		3,711	0.4	11,790	1.4
Impairment charges	12, 17]	-75,000	-8.5	0	0
Loss from disposal of subsidiary	19]	-7,373	-0.8	0	0
Operating result after special items		-78,662	-8.9	11,790	1.4
Financial result	5]	-9,265	-1.1	-6,202	-0.7
Non-operating result	6]	1,850	0.2	3,709	0.4
Result before tax		-86,077	-9.8	9,297	1.1
Income tax	7]	-12,723	-1.4	-8,468	-1.0
Result after tax		-98,800	-11.2	829	0.1
Minority interest		-109	0.0	-6	0.0
Net result group		-98,909	-11.2	823	0.1

Consolidated balance sheet

in CHF 1,000

Assets		31.12.04	in %	31.12.03	in %
Current assets					
Cash and cash equivalents		17,808		19,559	
Short-term investments	8]	11,996		5,240	
Trade accounts receivable	9]	142,437		142,648	
Other receivables	10]	17,988		20,340	
Inventories	11]	100,997		114,327	
Prepaid expenses and accrued revenue		3,900		4,839	
Total current assets		295,126	63.9	306,953	53.5
Non-current assets					
Land and buildings	12]	98,192		152,390	
Technical installations and machines	12]	59,850		101,805	
Other property, plant and equipment	12]	8,666		13,015	
Total non-current assets		166,708	36.1	267,210	46.5
Total assets		461,834	100.0	574,163	100.0

Liabilities and shareholders' equity	31.12.04	in %	31.12.03	in %
Liabilities				
Current liabilities				
Short-term bank debt	10,288		13,691	
Trade accounts payable	82,647		66,455	
Other current liabilities	13] 19,645		34,511	
Short-term provisions	14] 13,049		15,355	
Accrued expenses and deferred income	29,474		29,074	
Total current liabilities	155,103		159,086	
Long-term liabilities				
Banks: loans payable	30,784		29,098	
Banks: mortgages	24,726		23,681	
Other long-term debt	15] 13,172		14,526	
4.75% bond payable 2000–2006	16] 100,000		100,000	
Long-term provisions	14] 38,583		39,784	
Total long-term liabilities	207,265		207,089	
Total liabilities	362,368	78.5	366,175	63.8
Shareholders' equity				
Share capital	2,400		2,400	
Additional paid-in capital	79,633		79,600	
Treasury stock	-13,501		-17,560	
Retained earnings	67,246		170,787	
Cumulative translation adjustment	-36,898		-27,716	
Total shareholders' equity group	98,880		207,511	
Minority interest	586		477	
Total shareholders' equity	99,466	21.5	207,988	36.2
Total liabilities and shareholders' equity	461,834	100.0	574,163	100.0

Consolidated cash flow statement

in CHF 1,000

	2004	2003
Net result group	-98,909	823
Depreciation and amortization of operating assets	39,858	42,110
Impairment charges	75,000	0
Non-cash items:		
– Currency effect on net current assets	-4,294	-17,077
– Loss from disposal of subsidiary	7,373	0
– Other	-3,529	12,297
Changes in long-term provisions	-1,633	-14,978
Cash flows from operating activities before changes in net current assets	13,866	23,175
Changes in current assets	10,222	59,084
Changes in current liabilities and provisions	6,080	12,219
Cash flows from operating activities	30,168	94,478
Investing activities		
– Purchase of tangible assets, net	-28,135	-62,850
– Proceeds from sale of subsidiary less cash disposed of	504	0
Cash flows from investing activities	-27,631	-62,850
Minority interest	109	6
Dividends paid	-8,400	-12,000
Changes in long-term liabilities	3,675	2,817
Proceeds from sale (re-purchase) of treasury stock	4,092	-30,033
Cash flows from financing activities	-524	-39,210
Effect of exchange rate fluctuation on cash and cash equivalents	-361	577
Net change in net liquid funds	1,652	-7,005
Reconciliation		
Cash and cash equivalents, 1 January	19,559	22,264
Short-term bank debt, 1 January	-13,691	-9,391
Net liquid funds, 1 January	5,868	12,873
Cash and cash equivalents, 31 December	17,808	19,559
Short-term bank debt, 31 December	-10,288	-13,691
Net liquid funds, 31 December	7,520	5,868
Net change in net liquid funds	1,652	-7,005

Consolidated statement of shareholders' equity

in CHF 1,000

	Share capital	Additional paid-in capital	Treasury stock	Retained earnings	Cumulative translation adjustment	Total shareholders' equity group	Minority interest	Total shareholders' equity
Shareholders' equity as of								
1 January 2004 before adoption of Swiss GAAP FER 24	2,400	79,600	0	170,787	-27,716	225,071	477	225,548
Effect of adoption of Swiss GAAP FER 24	0	0	-17,560	0	0	-17,560	0	-17,560
Shareholders' equity as of 1 January 2004 after adoption of Swiss GAAP FER 24	2,400	79,600	-17,560	170,787	-27,716	207,511	477	207,988
Amortization of goodwill at disposal	19] 0	0	0	2,873	0	2,873	0	2,873
Treasury stock purchased/sold	0	33	4,059	0	0	4,092	0	4,092
Net result	0	0	0	-98,909	0	-98,909	109	-98,800
Dividends paid	0	0	0	-8,400	0	-8,400	0	-8,400
Translation adjustments	0	0	0	0	-9,182	-9,182	0	-9,182
Other changes	0	0	0	895	0	895	0	895
Shareholders' equity as of 31 December 2004	2,400	79,633	-13,501	67,246	-36,898	98,880	586	99,466

In accordance with Swiss GAAP FER 24, treasury stock is valued at cost and presented separately as deduction within shareholders' equity, beginning at 1 January 2004. Prior year figures have been reclassified accordingly. At 31 December 2004, the group held 120,040 treasury shares (31 December 2003: 154,032 treasury shares).

Other changes include the dividend adjustment of treasury shares.

At 31 December 2004, share capital consisted of 2,400,000 fully paid registered shares with a par value of CHF 1.-. Consolidated shareholders' equity includes legal and statutory reserves of CHF 74.7 million which are not available for distribution.

Notes to the consolidated financial statements

Summary of significant accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER and present a true and fair view of the financial position, the results of operations and the cash flows of the group. The consolidated financial statements are based on the historical cost basis. Accounting policies and valuation principles have been consistently applied compared to prior year except for the treatment of treasury stock and provisions. According to Swiss GAAP FER 24, as from 1 January 2004, treasury stock is valued at cost and presented separately as deduction within shareholders' equity. The adoption of Swiss GAAP FER 23 "Provisions" at 1 January 2004 had no significant effect on the consolidated financial statements. Certain prior year figures have been reclassified to ensure comparability with the current year presentation.

Scope of consolidation

The consolidated financial statements include the operations of Sarna Polymer Holding Inc. and all its direct and indirect subsidiaries which Sarna Polymer Holding Inc. controls by more than 50% of votes or by other means. The subsidiaries' financial statements have been prepared using uniform group accounting policies and are fully consolidated. A list of all subsidiaries is presented on page 53. At 1 December 2004, Sarnamotive Schweiz AG, Emmenbrücke (Switzerland), was sold to the German Wafa Beteiligungs GmbH and therefore has been excluded from consolidation after the date of sale.

Capital consolidation

Acquisitions of subsidiaries are accounted for using the purchase method where the subsidiaries' equity as at acquisition or at foundation date is eliminated against the cost of the parent company's investment. At acquisition date, assets and liabilities of subsidiaries acquired are valued at fair value including the recognition of deferred income taxes. The difference between the purchase price of acquisitions and the fair value of net assets acquired is directly charged as goodwill or badwill to the groups' equity. Minority interests in shareholders' equity and net income are disclosed separately. Intercompany balances, transactions and unrealized intercompany profits are eliminated on consolidation.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the dates of transaction. At the end of the accounting period, the balances in foreign currency receivables and liabilities are valued at the rate of exchange prevailing at balance sheet date, with resulting exchange rate differences charged to income. Assets and liabilities of subsidiaries reporting in foreign currencies are translated to Swiss francs at the rates of exchange prevailing at balance sheet date. Income, expenses, cash flows and other movement items are translated at the average exchange rates for the period. Translation gains and losses are accumulated and separately disclosed as cumulative translation adjustments in shareholders' equity. The exchange rates of the most important currencies are as follows:

Exchange rates	Average exchange rate		Closing exchange rate	
	2004	2003	2004	2003
1 EUR	1.55	1.52	1.55	1.56
1 USD	1.24	1.34	1.14	1.24
1 GBP	2.26	2.20	2.19	2.21

Notes to the consolidated financial statements

Valuation principles

General

The consolidated financial statements are prepared based on the historical cost basis with itemized valuation of assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal values and include petty cash as well as post office and bank balances at sight.

Short-term investments

Short-term investments consist mainly of term deposits with banks.

Trade accounts receivable

Receivables are recorded at their cost less an allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost and net realizable value using the weighted average method or the first-in, first-out (fifo) method. Allowances are made for slow-moving and obsolete items.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method based on the following estimated useful lives:

	Estimated useful lives	Annual depreciation in %
Buildings	33 years	3%
Technical installations and machines	4 – 10 years	10% – 25%
Other property, plant and equipment	3 – 5 years	20% – 33%

Land is not depreciated.

Intangible assets

Intangible assets include licences, patents and similar rights purchased from third parties. Goodwill is not capitalized, but directly charged to the group's equity at acquisition date.

Impairment of long-lived assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to an amount determined using discounted net future cash flows expected to be generated by the asset.

Leases

Assets acquired under leasing agreements which effectively transfer substantially all the risks and rewards incidental to ownership from the lessor to the lessee are classified as finance leases. Finance leases are recorded at amounts equivalent to the estimated net present value of the future minimum lease payments which approximate the fair value at the inception of the lease. The estimated net present value of the future minimum lease payments are recorded correspondingly as a finance lease obligation and classified according to their maturity dates as current and long-term financial liabilities. Assets under finance leases are amortized over their estimated useful lives.

Operating lease payments are charged to income as incurred.

Provisions

Provisions are recognized when the group has a legal or constructive obligation and it is probable that an outflow of resources will occur and the amount can be reasonably estimated.

Income taxes

Current income taxes are based on the taxable income of the current year and charged to income as incurred.

Deferred income taxes are determined based on the differences between the tax base and the uniform group valuation of assets and liabilities using the applicable current income tax rates. Tax loss carry forwards and possible tax savings generally are not capitalized, but only recorded when realized.

Treasury stock

According to Swiss GAAP FER 24, as from 1 January 2004, treasury stock is valued at cost and presented separately as deduction within shareholders' equity. Prior year figures have been reclassified to ensure comparability with the current year's presentation. Proceeds from sale of treasury stock exceeding their cost are recorded as additional paid-in capital and proceeds from sale below cost are debited to additional paid-in capital.

Income statement presentation

The format of the income statement uses a classification based on the nature of expenses. Net revenues include sales invoiced to third parties, net of any revenue deductions.

Employee benefits

Sarna group's employees are covered by employee benefit plans which are set up in accordance with local regulatory requirements. Such plans are mainly financially independent entities and pensions funds which are either defined contribution plans or defined benefit plans, normally financed by both the group and the participating employees. Pension expense of defined contribution plans is charged to income as incurred. Net periodic pension cost and the pension obligation of defined benefit plans are calculated annually and recognized in the financial statements accordingly.

Notes to the consolidated financial statements

Notes to the consolidated financial statements (in CHF 1,000)

1] Gross sales

Gross sales increased by 1.9% from CHF 864.5 million to CHF 880.8 million. Internal growth was positive at 3.8% but affected by a negative currency impact of -1.9%.

The geographic breakdown of gross sales is presented in the following schedule:

	2004	%	2003	%
Switzerland	74,290	8.4	75,466	8.7
Germany	276,818	31.4	277,801	32.1
Great Britain	67,508	7.7	53,793	6.2
Rest of Europe	117,248	13.3	115,159	13.4
North America and Mexico	327,156	37.2	325,097	37.6
Other countries	17,745	2.0	17,213	2.0
Total gross sales group	880,765	100.0	864,529	100.0

Gross sales by division were as follows:

	2004	%	2003	%
Sarnafil Division	379,069	43.0	368,790	42.7
Sarnamotive Division Europe	302,987	34.4	292,798	33.9
Sarnamotive Division America	198,709	22.6	202,941	23.4
Total gross sales group	880,765	100.0	864,529	100.0

Compared to prior year, the Sarnafil Division increased gross sales by 2.8% from CHF 368.8 million to CHF 379.1 million. In local currencies, growth of Sarnafil Division was 4.9%. Sarnamotive Division Europe increased its gross sales by 3.5% to CHF 303.0 million. In local currencies, gross sales were up by 1.6%. Gross sales of Sarnamotive Division America in Swiss francs decreased by 2.1% to CHF 198.7 million, but improved by 4.9% in local currencies.

2] Net revenues

Net revenues increased by 1.6% in the current year, from CHF 848.8 million to CHF 862.2 million. Net revenues include sales invoiced to third parties, net of any revenue deductions and other revenues. Revenue deductions include freight costs, rebates, discounts, bad debt losses and allowances for bad debts. As a percentage of gross sales, revenue deductions rose from 2.5% to 2.7%.

3] Material expenses

Material expenses as a percentage of gross sales increased by 2 percentage points compared to prior year, from 50.7% to 52.7%. The main reasons for this development are the changed product mix compared to the previous year and higher material costs in the automotive business.

4] Other operating expenses

	2004	2003
Rent and leasing	9,542	8,267
Guarantee accruals and miscellaneous operating expenses	3,793	4,210
Capital taxes	259	343
Total other operating expenses	13,594	12,820

5] Financial result

	2004	2003
Interest income	545	1,218
Other financial income	690	3,542
Total financial income	1,235	4,760
Interest expense	-9,201	-10,413
Other financial expenses	-1,299	-549
Total financial expenses	-10,500	-10,962
Financial result	-9,265	-6,202

Interest expense includes interest for the issued bond payable of CHF 4.7 million.

6] Non-operating result

	2004	2003
Non-operating income	3,433	4,679
Non-operating expenses	-1,583	-970
Non-operating result	1,850	3,709

Non-operating income includes payments received related to accounts receivable allowed for in prior years (CHF 1.4 million), rental income (CHF 1.0 million) and gain on sale of fixed assets (CHF 0.2 million). The damages resulting from the fire at Sarnamotive Schenk in Bretten, Germany, on 25 April 2004, are mainly covered by corresponding insurance protection.

7] Income taxes

Income tax expense amounts to CHF 12.7 million for the current period and includes current and deferred income taxes of the individual subsidiaries in the respective fiscal jurisdictions.

	2004	2003
Current income taxes	10,548	7,231
Deferred income taxes	2,175	1,237
Total income taxes	12,723	8,468

Tax loss carry forwards of CHF 33.6 million (prior year: CHF 18.4 million) and deferred tax assets resulting from temporary differences in the amount of CHF 1.9 million (prior year: CHF 3.2 million) were not capitalized in applying the prudence principle.

8] Short-term investments

Short-term investments mainly include term deposits denominated in Swiss franc, Euro and British pound. In the 2003 annual report, the item "Short-term deposits and securities" included treasury stock in the amount of CHF 3.4 million. Additional treasury stock of CHF 14.1 million was classified as long-term financial investments. With the adoption of Swiss GAAP FER 24 treasury stock is presented separately as a deduction within shareholders' equity. Prior year figures have been reclassified to ensure comparability with the current year presentation.

9] Trade accounts receivable

	31.12.04	31.12.03
Trade accounts receivable, gross	148,894	147,984
less allowance for doubtful accounts	-6,457	-5,336
Trade accounts receivable, net	142,437	142,648

10] Other receivables

	31.12.04	31.12.03
Short-term loans receivable	5,813	6,499
Other receivables	12,175	13,841
Total other receivables	17,988	20,340

Other receivables mainly include various tax receivables.

11] Inventories

	31.12.04	31.12.03
Raw material	26,582	25,774
Semi-finished and finished goods	74,415	88,553
Total inventories	100,997	114,327

Inventory turnover was 4.4 in 2004 (prior year: 4.0).

12] Movements of fixed assets

	Land and buildings	Technical installations and machines	Other property, plant and equipment	Intangible assets	Total
At cost					
Balance at 1 January 2004	230,369	360,263	59,656	249	650,537
Acquisitions and divestitures	-1,199	-7,885	-264	0	-9,348
Additions	2,255	23,939	4,330	4	30,528
Disposals	-765	-17,279	-3,247	0	-21,291
Translation adjustments	-5,264	-11,947	-1,598	-1	-18,810
Balance at 31 December 2004	225,396	347,091	58,877	252	631,616
Accumulated depreciation					
Balance at 1 January 2004	77,979	258,458	46,641	249	383,327
Acquisitions and divestitures	-303	-2,270	-91	0	-2,664
Additions	6,897	27,460	5,497	4	39,858
Impairment charges	44,647	27,908	2,445	0	75,000
Disposals	0	-15,990	-2,912	0	-18,902
Translation adjustments	-2,016	-8,325	-1,369	-1	-11,711
Balance at 31 December 2004	127,204	287,241	50,211	252	464,908
Net book value					
At 1 January 2004	152,390	101,805	13,015	0	267,210
At 31 December 2004	98,192	59,850	8,666	0	166,708
Fire insurance values	243,338	344,760	60,840	0	648,938

The impairment charges of CHF 75.0 million are related to the announced sale of the automotive divisions, see note 17 on page 45.

The insurance values of fixed assets of CHF 648.9 million cover their replacement costs. The business interruption risks as a result of fire, as well as operating and product liability risks are insured on a group wide basis. The net gain on sale of property, plant and equipment amounted to CHF 0.2 million (prior year: CHF 0.0 million).

Property, plant and equipment include technical equipment and machinery acquired under finance leases in the amount of CHF 14.4 million.

13] Other current liabilities

	31.12.04	31.12.03
Short-term financial liabilities	7,478	5,869
Current income tax liabilities	2,619	4,598
Other current liabilities	9,548	24,044
Total other current liabilities	19,645	34,511

Other current liabilities include social security payable, value added taxes payable and other tax payable. The current portion of finance lease obligation amounts to CHF 2.5 million (prior year: CHF 2.5 million).

14] Provisions

	Deferred income taxes	Employee benefits	Guarantees	Restructuring	Other	Total
Balance at 1 January 2004	8,032	2,236	33,163	10,240	1,468	55,139
Acquisitions and divestitures	0	0	0	0	-80	-80
Charges	2,518	166	8,231	1,000	6,687	18,602
Uses	0	0	-6,249	-7,800	-328	-14,377
Amounts reversed to income	-156	-738	-4,766	0	-140	-5,800
Translation adjustments	-24	-119	-1,024	0	-685	-1,852
Balance at 31 December 2004	10,370	1,545	29,355	3,440	6,922	51,632
Short-term provisions	0	0	3,550	3,440	6,059	13,049
Long-term provisions	10,370	1,545	25,805	0	863	38,583
Total provisions	10,370	1,545	29,355	3,440	6,922	51,632

The majority of employees are covered by employee benefit plans which are funded by Sarna Group, by employee contributions and in certain countries by state authorities. Such plans can be set up as state or company-controlled entities, as agreements with private insurance companies, as independent trusts or as pension funds. The benefits provided by such entities vary by country based on the legal and economic environment and primarily are based on employees' years of service and average compensation, generally covering the risks of old age, death and disability in accordance with legal requirements and the pension legislation in the respective countries. The majority of these plans are defined contribution plans where pension expense is charged to income as incurred. Defined benefit plans where the pension obligations are accrued accordingly exist at a German and at an American subsidiary.

Guarantee provisions include legal and constructive warranties related to product sales.

15] Other long-term debt

Other long-term debt includes long-term finance lease obligation of CHF 12.0 million (prior year: CHF 13.3 million).

16] 4.75% bond payable 2000 – 2006

The 4.75% bond payable 2000 – 2006 of Sarna Polymer Holding Inc. with a nominal value of CHF 100 million was issued on 31 July 2000. It is listed at SWX Swiss Exchange with security code 1098001. During the 6-year term, the interest rate is fixed at 4.75%.

17] Discontinuing operations (Automotive divisions)

On 14 December 2004, Sarna announced that the Board of Directors has decided to spin-off its automotive operations. The automotive subsidiaries in Europe (Sarnamotive Paulmann & Crone GmbH, Sarnamotive Schenk GmbH and Sarnamotive Bohemia s.r.o.), in America (Sarnamotive Blue Water Inc. and Sarnamotive Mexico R.V.) and in Great Britain (Sarnatech BNL Ltd) will be sold. These transactions are expected to be completed in 2005. As the carrying value of the automotive divisions' fixed assets at the European and American subsidiaries currently exceeds substantially their estimated recoverable amount, impairment charges of CHF 75 million were recognized, see also note 12.

Continuing operations

The following condensed consolidated income statement discloses the 2004 results for the continuing operations comprising the Sarnafil Division and the remaining group companies.

Condensed consolidated income statement CHF in millions

	2004
Continuing operations	
Gross sales	379.1
Total expenses	338.6
Operating result (EBIT)	40.5
Financial expenses, net	-0.5
Other income, net	2.3
Profit before taxes	42.3
Income taxes	11.0
Net profit from continuing operations	31.3

18] Goodwill

Goodwill from acquisition of subsidiaries was directly charged to the group's equity at acquisition date. The impact of a theoretical capitalization of goodwill and its systematic amortization over a five year period on the balance sheet and the income statement are disclosed as a pro-forma information with prior year comparative figures in the notes of the consolidated financial statements.

The following schedule illustrates this pro-forma information for the automotive subsidiaries to be sold whose theoretical goodwill amortization at 31 December 2004 was not yet fully completed.

	Sarnamotive Blue Water Inc.	Sarnamotive Mexico	Total
Goodwill paid	107,035	12,424	119,459
Accumulated pro-forma amortization at 31 December 2004	96,332	8,698	105,030
Pro-forma balance of goodwill, net at 31 December 2004	10,703	3,726	14,429
Pro-forma amortization expense for 2004	21,407	2,485	23,892

Taking into consideration the unamortized balance of goodwill in the pro-forma schedule above, the expected loss on sale of the automotive subsidiaries would increase accordingly by CHF 14.4 million. Goodwill paid and directly charged to equity on the acquisition of Sarnamotive Paulmann & Crone GmbH, Sarnamotive Schenk GmbH and Sarnatech BNL Ltd was fully amortized at 31 December 2004 and therefore eliminated from the pro-forma illustration above. As Sarnamotive Bohemia s.r.o. was founded, no goodwill resulted for this subsidiary.

19] Loss from disposal of subsidiary

	2004	2003
Book loss on sale of subsidiary	4,500	0
Amortization of goodwill at disposal	2,873	0
Total loss from disposal of subsidiary	7,373	0

At 1 December 2004, Sarnamotive Schweiz AG in Emmenbrücke (Switzerland) was sold to the German company Wafa Beteiligungs GmbH. The unamortized balance of goodwill of CHF 2.9 million as per pro-forma schedules was credited to retained earnings and charged to income in 2004 accordingly.

20] Additional disclosures**Transactions with related parties**

Employees of Sarna Group are entitled to participate in a employee stock ownership plan. According to this plan, a number of shares are offered annually at preferential terms to participating employees. The shares required for these offerings are provided from existing treasury stock of the group-controlled Sarna Stiftung. In addition, there are loan agreements with the joint venture partner Granol AG, Sursee (Switzerland).

The existing stock option plan for the Board of Directors and senior management expired on 27 December 2004 with no options being exercised. No new stock option plan was implemented. For members of senior management a stock ownership plan at preferential terms exists.

Contingent liabilities

Contingent liabilities consist of guarantees and discounted bills amounting to CHF 0.8 million at 31 December 2004 (prior year: CHF 1.4 million). Additionally, there are future commitments of CHF 10.7 million (prior year: CHF 23.8 million) relating to long-term rental contracts and from purchase commitments.

Pledged and otherwise restricted assets

Real estate with a value of CHF 37.7 million (prior year: CHF 42.6 million) were pledged to secure own mortgage loans.

Operating lease commitments

The total amount and maturity schedule of future operating lease commitments with a period of notice of more than one year were as follows at 31 December 2004:

	2004	2003
Due within one year	3,565	1,621
Due between two and five years	8,117	1,694
Due after five years	17	0
Total operating lease commitments	11,699	3,315

Financial instruments

Derivative financial instruments are solely used to manage foreign currency exposure and marked to market with negative replacement values recognized as liabilities whereas positive replacement values are not capitalized but only disclosed in the notes.

	Contract values	Replacement values		Contract values	Replacement values	
	2004	positive	negative	2003	positive	negative
Foreign exchange						
- Forward contracts	24,947	33	-204	27,659	1,582	-44
- Options	2,004	20	-37	0	0	0
Total currencies	26,951	53	-241	27,659	1,582	-44

Subsequent events

There are no events after balance sheet date 31 December 2004 which would influence the financial statements. The consolidated financial statements were approved for publication by the Board of Directors on 18 March 2005.

Report of the Group Auditors

To the Annual General Meeting of Sarna Polymer Holding Inc., Sarnen

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement and notes: pages 33 – 46) of Sarna Polymer Holding Inc. for the year ended 31 December 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated 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, 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 Swiss GAAP FER and comply with Swiss law.

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

KPMG Fides Peat

Dr. Elisabeth Kruck
Swiss Certified Accountant
(Auditor in charge)

Stefan Sieber
Swiss Certified Accountant

Zug, 18 March 2005

Financial Statements of Sarna Polymer Holding Inc.

Income statement

in CHF

Income		2004	in %	2003	in %
Dividend and interest income from subsidiaries	1)	56,758,495	99.6	39,975,346	93.7
Other financial income	2)	250,674	0.4	2,690,098	6.3
Total income		57,009,169	100.0	42,665,444	100.0
Expenses		2004	in %	2003	in %
Financial expenses	3)	4,744,220	8.3	4,711,914	11.0
General and administration		4,207,792	7.4	4,334,206	10.2
Impairment charges on investments and loans receivable	4)	170,890,827	299.8	21,576,421	50.6
Total expenses		179,842,839	315.5	30,622,541	71.8
Net loss/profit		-122,833,670	-215.5	12,042,903	28.2

Balance sheet

in CHF

Assets	31.12.04	in %	31.12.03	in %
Current assets				
Short-term bank deposits	5 3,966,438		432,119	
Accounts receivable from group companies	2,475,604		141,134	
Other receivables	60,885		1,374,521	
Prepaid expenses and accrued income	191,690		1,543,424	
Total current assets	6,694,617	3.1	3,491,198	1.0
Non-current assets				
Investments	6 120,342,284		277,575,488	
Loans receivable from group companies	84,432,215		60,531,760	
Loans receivable from third parties	7 2,191,261		2,880,000	
Securities	3		3	
Total non-current assets	206,965,763	96.9	340,987,251	99.0
Total assets	213,660,380	100.0	344,478,449	100.0
Liabilities and shareholders' equity	31.12.04	in %	31.12.03	in %
Liabilities				
Other liabilities	153,652		191,811	
Accrued expenses and deferred income	2,315,367		2,129,166	
Loans payable to group companies	750,000		320,000	
4.75% bond payable 2000–2006	8 100,000,000		100,000,000	
Provisions	9 234,239		396,680	
Total liabilities	103,453,258	48.4	103,037,657	29.9
Shareholders' equity				
Share capital	10 2,400,000		2,400,000	
Additional paid-in capital	11 44,000,000		44,000,000	
Legal reserves	10,000,000		10,000,000	
Reserve for treasury stock	12 14,331,000		18,390,000	
Special reserves	157,919,000		153,860,000	
– Retained earnings brought forward	4,390,792		747,889	
– Net loss/profit for the year	–122,833,670		12,042,903	
Accumulated loss/profit at the end of year	–118,442,878		12,790,792	
Total shareholders' equity	110,207,122	51.6	241,440,792	70.1
Total liabilities and shareholders' equity	213,660,380	100.0	344,478,449	100.0

Notes to the financial statements

1] Dividend and interest income from subsidiaries

The significant increase compared to prior year is mainly due to higher dividend income from group companies.

2] Other financial income

Other financial income includes interest income on loans receivable from third parties and on short-term bank deposits. The prior year figure includes the repayment of a loan receivable, granted in connection with a divestment that was written-off.

3] Financial expenses

Financial expenses include interest and the amortization of the premium on the bond payable.

4] Impairment charges on investments and loans receivable

In connection with the announced divestment of the Sarnamotive business substantial impairment charges have been recognized in the income statement to write-down the carrying values of the investments. Additionally, at the disposal of Sarnamotive Schweiz AG, the loan receivable was fully written off. In total, Sarna Polymer Holding Inc. recorded impairment charges on investments in and loan receivables from European and American automotive group companies of CHF 170.3 million.

5] Short-term bank deposits

Short-term bank deposits include bank balances at sight.

6] Investments

The significant investments held by Sarna Polymer Holding Inc. are listed on page 53. In 2004, Sarnafil s.à r.l., France, increased its share capital. As of 1 December 2004, the investment in Sarnamotive Schweiz AG was sold to the German Wafa Beteiligungs GmbH. On the investments in group companies in both automotive divisions, Europe and America, significant impairment charges have been recorded.

7] Loans receivable from third parties

Loans receivable from third parties include a loan granted to a former group company which was divested in 2002.

8] 4.75% bond payable 2000–2006

This bond was issued on 31 July 2000. It is listed with security code 1098001 on the SWX Swiss Exchange. The interest rate over the 6-year term is 4.75%.

9] Provisions

Provisions include provisions for taxes and the deferred premium on the 4.75% bond payable to be amortized.

10] Share capital

Share capital consists of 2,400,000 registered shares each with a par value of CHF 1. The shares of Sarna Polymer Holding Inc. are listed on the SWX Swiss Exchange. At 31 December 2004, the share register showed 2,921 registered shareholders. The following shareholders held shares entitling them to more than 5% of the total voting rights:

- Tweedy Browne Company LLC, New York: > 10.0%
- Sarna Patent und Lizenz AG and Sarna Stiftung: 9.2%
- Sterling Investment Group Limited: > 5.0%

11] Additional paid-in capital

Additional paid-in capital resulted from the capital increase of 30 September 1994.

12] Reserve for treasury stock

The reserve for treasury stock corresponds to the value of own shares held by subsidiaries (pursuant to Art. 659 a/b of the Swiss Code of Obligations). The number of treasury shares held on 31 December 2004 amounts to 120,040. An amount of CHF 4.1 million has been transferred from the reserve for treasury stock to the special reserves.

Additional information

Contingent liabilities

Guarantees and joint sureties have been issued on behalf of subsidiaries for bank loans. On 31 December, the total amounts under guarantees and joint sureties are CHF 63.2 million in 2004 and CHF 23.0 million in 2003, respectively.

There are no other notifiable events within the meaning of the Swiss Code of Obligations.

Proposed appropriation of accumulated loss in CHF

	2004	2003
The Board of Directors proposes that the Annual General Meeting disposes of the accumulated loss/profit consisting of		
– Net loss/profit for the year	–122,833,670	12,042,903
– Retained earnings brought forward	4,390,792	747,889
Total	–118,442,878	12,790,792
as follows		
– Prior year: Dividend of CHF 3.50 per share	0	–8,400,000
– Allocation of special reserves	118,442,878	0
To be carried forward	0	4,390,792
Dividend payment		
Subject to approval by the shareholders, with the proposed appropriation of the accumulated loss, no dividend will be distributed.		
Dividend per share, gross	0.000	3.500
less 35% Swiss withholding tax	0.000	1.225
Net dividend	0.000	2.275

Report of the Statutory Auditors

To the Annual General Meeting of Sarna Polymer Holding Inc., Sarnen

As statutory auditors we have audited the accounting records and the financial statements (balance sheet, profit and loss accounts and notes) of Sarna Polymer Holding Inc. for the year ended 31 December 2004.

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

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

In our opinion the accounting records and financial statements comply with Swiss law and the company's Articles of Incorporation.

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

KPMG Fides Peat

Dr. Elisabeth Kruck
Swiss Certified Accountant
(Auditor in charge)

Stefan Sieber
Swiss Certified Accountant

Zug, 18 March 2005

Subsidiaries

	Currency	Capital in millions	Interest in %	Affiliation	Foundation/ Acquisition
Switzerland					
Sarna Verwaltungs AG, Sarnen	CHF	10.0	100	GC	1991
Sarna Patent und Lizenz AG, Sarnen	CHF	12.0	100	GC	1983
Sarna Optima AG, Alpnach	CHF	0.3	100	GC	1985
Sarna Immobilien AG, Buochs	CHF	0.6	100	GC	1979
Sarna Hallen AG, Sarnen	CHF	0.1	100	GC	1991
Sarnafil International AG, Sarnen	CHF	14.0	100	SF	1991
Sarnafil AG, Sarnen	CHF	2.75	100	SF	1996
Sarna-Granol AG, Sarnen	CHF	0.5	50	SF	1979
Sarnapane AG, Sarnen	CHF	0.5	100	SF	1982
Sarna Plastec AG, Sarnen	CHF	1.5	100	SF	1991
Germany					
Sarna Kunststoff Beteiligungs GmbH, Esslingen	EUR	2.56	100	GC	1994
Sarnafil GmbH, Feldkirchen	EUR	0.77	100	SF	1974
Sarnafil Lager- und Dienstleistungs GmbH, Hückelhoven	EUR	1.28	100	SF	1991
Sarnamotive Paulmann & Crone GmbH, Lüdenscheid	EUR	2.61	100	SME	1996
Sarnamotive Schenk GmbH, Esslingen	EUR	1.53	100	SME	1994
USA					
Sarna Michigan Inc., Marysville	USD	25.0	100	GC	2000
Sarnafil Inc., Canton/Mass.	USD	2.71	100	SF	1975
Sarnatech BNL (USA) Inc., Foxboro	USD	0.001	100	SMA	1995
Sarnamotive Blue Water Inc., Marysville	USD	94.02	100	SMA	2000
Canada					
Sarnafil Canada Ltd, Mississauga/Ontario	CAD	0.6	100	SF	1975
France					
Sarnafil s.à r.l., Champagne au Mont d'Or	EUR	1.5	100	SF	1986
Italy					
Sarnafil s. r. l., Redecesio di Segrate/Milano	EUR	2.08	100	SF	1977
Netherlands					
Sarnafil B.V., Oisterwijk	EUR	0.68	100	SF	1988
United Kingdom					
Sarna Finance Ltd, Jersey	CHF	70.0	100	GC	1995
Sarna Ltd, Knaresborough	GBP	8.5	100	GC	1995
Sarnafil Ltd, Norwich	GBP	0.2	100	SF	1980
Sarnatech BNL Ltd, Knaresborough	GBP	1.6	100	SMA	1995
Denmark					
Sarnafil Nordic A/S, Taastrup	DKK	1.1	100	SF	1996
China					
Sarnafil Waterproofing Systems Ltd, Jinan	CHF	5.38	100	SF	2001
Sarnafil Waterproofing Systems Ltd, Shanghai	USD	0.84	100	SF	2003
Mexico					
Sarnamotive Mexico R.V. de Tutitlan	USD	12.41	100	SMA	2001
Japan					
Sarnatech Japan Inc., Tokyo	JPY	10.0	100	SMA	2001
Czech Republic					
Sarnamotive Bohemia s.r.o., Liberec	CZK	145.0	100	SME	2003

Key: GC = Group companies, SF = Sarnafil, SME = Sarnamotive Europe, SMA = Sarnamotive America

Additional investor information

	2004	2003	2002	2001 ¹	2000 ¹
Number of shares	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Data per share (in CHF)					
Net result group	-41.21	0.34	13.40	16.80	17.10
Shareholders' equity	41.44 ²	86.66 ²	103.20	104.80	113.00
Cash flow ³	6.65	17.89	30.70	30.20	31.30
Dividends ⁴	0	3.50	5.00	5.00	5.00
Share price					
- highest	126.00	140.25	175.50	215.00	222.00
- lowest	98.05	93.00	97.50	120.00	175.00
- end of year	117.90	114.00	105.00	130.00	198.00
Key data (end of year)					
Market capitalization (in million CHF)	283	274	252	312	475
Average trading volumes per day	4,069	3,498	1,614	2,610	6,600
Net result group in % of					
shareholders' equity	-99.4	0.4	13.0	12.2	15.1
Dividend yield in %	0	3.1	4.8	3.8	2.5
Price-earnings ratio	-2.9	332.4	7.8	7.7	11.6

¹ Previous year adjusted with regard to share split 1:10 on 22 July 2002

² Shareholders' equity has been adjusted by the amount of treasury stock to ensure comparability with the current year presentation

³ Net result for the group plus depreciation plus impairment charges

⁴ Proposal of the Board of Directors

Ticker symbol/Swiss security number

Telekurs SAKN
Reuters RNAZn
Sec. No. 1421775

Share registry

The share capital consists of 2,400,000 registered shares each with a par value of CHF 1. Per 22 July 2002 a nominal value repayment of CHF 50 per registered share and a 1:10 split were made. The shares of Sarna Polymer Holding Inc. are listed on the SWX Swiss Exchange. Market capitalization amounted to CHF 283 million at 31 December 2004. The free float amounts to 90.8%. At 31 December 2004, the share register showed 2,921 registered shareholders.

Investor Relations

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Five-year summary

Monetary values in CHF 1,000

Sarna Group consolidated	2004	2003 ⁵	2002	2001	2000
Key performance figures					
Gross sales	880,765	864,529	966,348	955,884	859,862
% change from previous year	+1.9	-10.5	+1.1	+11.2	+29.6
– Sarnafil Division	379,069	368,790	382,078	390,581	377,968
– Sarnamotive Division Europe	302,987	292,798	281,927	247,846	240,635
– Sarnamotive Division America ¹	198,709	202,941	271,952	256,610	162,730
– Sarnatech Division ¹	0	0	30,391	60,847	78,529
Impairment charges	75,000	0	0	0	0
Depreciation of operating fixed assets	39,858	42,110	41,471	41,743	34,030
Capital expenditures	30,528	66,185	59,200	48,000	46,200
Number of employees	3,723	3,844	3,760	3,848	3,778
– % change from previous year	-3.1	+2.2	-2.3	+1.9	+51.2
Personnel expenses in % of gross sales	28.8	29.7	28.0	28.5	27.0
Result					
Operating result before interest and taxes	-78,662	11,790	43,595	50,075	63,706
– % change from previous year	-767.2	-73.0	-12.9	-21.4	+43.7
– in % of gross sales	-8.9	1.4	4.5	5.2	7.4
Net result group	-98,909	823	32,109	30,665	41,015
– in % of shareholders' equity	-99.4	0.4	13.0	12.2	15.1
– in % of gross sales	-11.2	0.1	3.3	3.2	4.8
Cash flow					
Cash flow ²	15,949	42,933	73,580	72,408	75,045
– in % of gross sales	1.8	5.0	7.6	7.6	8.7
– % change from previous year	-62.9	-41.7	+1.6	-3.5	+29.8
Balance sheet					
Total assets	461,834	574,163	627,608	625,265	651,954
Current assets	295,126	306,953	374,636	350,903	387,837
Non-current assets	166,708	267,210	252,972	274,362	264,117
– in % of shareholders' equity	167.6	128.5	102.2	109.1	97.4
Current liabilities	155,103	159,086	142,567	136,396	141,869
Long-term liabilities	207,265	207,089	236,992	236,904	237,763
Shareholders' equity	99,466	207,988	247,578	251,499	271,270
– in % of total assets	21.5	36.2	39.4	40.2	41.6
– % change from previous year	-52.2	-16.0	-1.6	-7.3	-23.2
Sarna Polymer Holding Inc.					
Share capital ³	2,400	2,400	2,400	14,400	14,400
Investment in participations	1,547	7,860	0	28,070	104,756
Total dividend ⁴	0	8,400	12,000	12,000	12,000
Dividend per registered share in CHF ⁴	0	3.50	5.00	50.00	50.00

¹ In the previous year's figures gross sales of Sarnatech BNL were transferred from the Sarnatech Division to Sarnamotive Division America.

² Net result group plus depreciation plus impairment charges

³ On 22 July 2002 a nominal value repayment of CHF 50.00 per registered share as well as a split in the ratio of 1:10 was made.

⁴ Proposal of the Board of Directors.

⁵ Certain prior year figures have been adjusted to ensure comparability with the current year presentation.

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