Herrliberg, 15 February 2002

MEDIA INFORMATION

Financial statement 2001 for the EMS Group

EMS: Tackling 2002 with a robust balance sheet

1. Summary

With its companies combined in EMS-CHEMIE HOLDING AG, the EMS Group with global activities in the fields of **Performance Polymers**, **Fine Chemicals** and **Engineering** was able to strengthen its **balance sheet structure** even further in the year 2001 - in the face of a highly unfavourable market situation.

To avoid any future ambiguity in respect of goodwill assessment, EMS writes down to zero the entire **goodwill** of the EMS Group (CHF 37 million) in the 2001 profit & loss account.

In addition, the extraordinary **restructuring costs** incurred by the Fine Chemicals business field have also been fully written off in the profit & loss account.

Despite the fact that these complete write-downs were taken into account, **shareholders' equity** was again boosted, by 12.6 % to CHF 1'317 million. At the same time, external finance has been reduced by CHF 165 million to CHF 1'283 million. The new equity ratio is hence 50.7 %. The non-operational short-term disposable resources exceed the interest-bearing external finance. EMS is thus extremely well equipped to face the uncertainties of the current year 2002.

Although **net sales revenues** increased by 7.9 % to CHF 1'252 (1'160) and by 12.5 % in **local currency**, the record showing of the previous year was not able to be repeated. However, the results are better than was expected as late as autumn last year. **EBITDA** amounted to CHF 258 million (- 6.6 %). In comparison with the previous year, operating income **EBIT** dropped by 9.3 % to CHF 193 million (213) against the previous year. This decline in EBIT can be attributed on the one hand to the marked economic slowdown, on the other hand to the substantial restructuring costs in the Fine Chemicals field.

The financial markets were hit by virtually historic crashes. Viewed in this light, the **finance income** of CHF 66 million (102) - which covers only such income from securities and investment that was actually realised (i.e. without book profits) -

may be termed particularly satisfactory. **Net profit after taxes**, after write-down of the entire goodwill and the one-time restructuring costs, hence amounts to CHF 176 million (- 30.2 %). The **return on equity** is 13.4 %, whereby the average for the past five years amounts to 21.9 %.

The following data underline the robust health of the EMS Group on 31 December 2001:

	CHF	**%**
Shareholders' equity	CHF 1'317 million	50.7 % of the bs total [1)]
Return on equity	-	21.9 % as an average of the past five years
External finance	CHF 1'283 million	49.3 % of the bs total [1)]
Interest-bearing external finance	CHF 694 million	-22.5 % against 2000
Repayment horizon [2)]	-	2.7 years
Goodwill	None	-
Free cash flow	CHF 192 million	70.1 % of cash flow
External finance costs	CHF 41 million	-
Investment income [3)]	CHF 115 million	-
Net indebtedness [4)]	none; net cash position of CHF 331 million	net cash position + 32.2 % against 2000

1) bs = balance sheet

2) Repayment horizon: indicates the number of years required to repay the interest-bearing external finance from EBITDA (assessment: the lower the better)

3) Investment income: corresponds to interest yield and income from securities/investments

4) Net indebtedness: interest-bearing debts less liquid resources, securities and financial interests

This excellent situation is the result of careful business activities even in periods of strong economic growth. Over the past years EMS has pursued a policy of caution in the acquisitions field. Consequently, the entire goodwill of previous acquisitions was able to be written off in the 2001 profit & loss account; any future discussion in respect of goodwill valuation has thus been nipped in the bud. The philosophy of prudence embraced by EMS is further underlined by the great importance the group attaches to net profit and free cash flow.

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2. Development of income 2001: key figures

Business years, CHF millions	**2001**	2000
Net sales revenues	**1'252**	1'160
change	**+ 7.9 %**	+ 6.8 %
change in local currencies	**+ 12.5 %**	+ 2.5 %
Operational cash flow (EBITDA) [1]	**258**	277
change	**- 6.6 %**	+ 5.6 %
in % of net sales revenues	**20.6 %**	23.8 %
Operating income (EBIT) [2]	**193**	213
change	**- 9.3 %**	+ 7.1 %
in % of net sales revenues	**15.4 %**	18.4 %
Operating income (EBIT) after extraordinary write-off of the entire goodwill [2]	**163**	-
change	**- 23.3 %**	-
in % of net sales revenues	**13.0 %**	-
Finance income	**66**	102
change	**- 35.8 %**	+ 72.6 %
Income taxes	**51**	57
change	**- 9.7 %**	+ 31.1 %
Net profit [3]	**176**	253
change	**- 30.2 %**	+ 20.6 %
in % of net sales revenues	**14.1 %**	21.8 %
per dividend-bearing bearer share in CHF	**337.81**	484.30
change	**- 30.2 %**	+ 20.6 %
Investments	**82**	99
in % of cash flow [4]	**29.9 %**	31.2 %
Shareholders' equity	**1'317**	1'170
in % of the balance-sheet total	**50.7 %**	44.7 %
return on equity	**13.4 %**	21.6 %
shareholders' equity per div.-bearing bs, CHF	**2'524.45**	2'242.05
Increase in %	**+ 12.6 %**	+ 27.1 %
Number of employees on 31.12.	**2'731**	2'751

[1] EBITDA = **E**arnings **b**efore **i**nterest, **t**axes, **d**epreciation and **a**mortization = operational cash flow
[2] EBIT = **E**arnings **b**efore **i**nterest and **t**axes = operating income
[3] Net profit = profit after taxes less minority interests
[4] Cash Flow = net profit plus write-downs

3. Development of sales and income: capsule commentary

3.1. General situation assessment

EMS anticipated an economic slowdown for 2002 already well in advance, and applied appropriate cost-reducing measures and investment cuts in good time. After 11 September 2001, however, the expected slowdown developed into a much more serious scenario that also took effect much more quickly and in a significantly more devastating form that previously expected. The terrorist attacks in the USA were not the root cause of the slump, although they certainly accelerated the process. The USA and Japan were especially hard hit by the slowdown, particularly in the investment goods field. The recessive trend reached Europe in the second half of 2001.

Over the past years, shareholder value has been virtually the exclusive yardstick for success applied in the world of finance. Balance sheet ratios were afforded but minor attention. However, the past year in particular has demonstrated that in times of economic recession and declining profits the balance-sheet structure of a company - quite especially the ratio of shareholders' equity to external finance - can be of decisive importance for sustainable success. Over the past years EMS has always placed great emphasis on shareholders' equity, setting itself a target of 40 - 60 % for the equity ratio. Over the past year the equity ratio was boosted to 50.7 % in spite of the fact that goodwill was fully written down in the profit & loss account.

3.2. Net sales revenues

EMS boosted **net sales revenues** by 7.9 % against the previous year to CHF 1'252 million (1'160 million, by 12.5 % in local currency), whereby sales would have remained on the same level in the previous year's circle of consolidation, which additionally covers Wagner Automobilsysteme (acquired in February 2001) and EMS-UBE Ltd., Ube (Japan). The previous minority interest of 49 % in EMS-UBE Ltd., a company that produces chemical raw materials exclusively for the two partners EMS and UBE, has been increased to 66 2/3 %. As EMS-UBE sells the raw materials at full cost to the partners, this consolidation generates higher sales but only an insignificant profit increase.

Exports were responsible for 91.5 % of sales (91.2 %), of which 55.6 % (58.0 %) within the EU, 10.4 % (12.1 %) in North America, 20.5 % (14.8 %) in the Far East and 5.0 % (6.3 %) in other countries. In Switzerland, EMS realised 8.5 % (8.8 %) of net sales revenues. EMS production remains firmly based in Switzerland: 65.6 % (72.4 %) of EMS products were manufactured here, with 20.8 % (20.7 %) of the remaining output produced in the EU, 4.7 % (5.2 %) in the USA and 8.9 % (1.7 %) in Asia. The significant increase of production in Asia must be attributed to the recent consolidation of EMS-UBE.

3.3 Slightly lower operating income - high free cash flow

Operating income (EBIT) decreased by 9.3 % to CHF 193 million (213). The decline of operating income was able to be checked thanks to the early implementation of measures in respect of costs and investments. In view of the prevailing business environment the result achieved may be termed satisfactory.

A debate has started regarding the handling (i.e. valuation) of **goodwill** (the difference between the purchase price of acquired companies and their equity). The current trend points in the direction of no longer writing down goodwill in linear form; instead, the goodwill value is to be assessed annually by way of a provisional value adjustment process. If this results in a lower goodwill value, the posted amount shall be subjected to downward correction. Although this procedure currently applies only to companies applying the American US-GAAP accounting standards, the trend will nevertheless be integrated into the IAS standards in the course of the coming years. These impending recurring goodwill valuations will be difficult, extremely time-consuming and expensive. EMS has therefore decided **to write off the entire goodwill from previous acquisitions to the debit of the 2001 operating result. This is a feasible option thanks to the high profitability of the EMS Group, and one that avoids any future goodwill assessment problems.**

Cash flow amounted to CHF 274 million (316); investments were thus financed without problem. One of the characteristic strengths of EMS is the fact that a high free cash flow is generated in good as well as in difficult years. In spite of the relatively modest income situation, the **free cash flow** thus remains high also for the report year: CHF 192 million, corresponding to 70.1 % of the overall cash flow (CHF 217 million or 68.8 %). A consistently high free cash flow provides an additional measure of crisis resistance.

3.4 Finance income

Finance income as reported by EMS covers only such income from securities and investments that was realised in the course of the business year. In spite of the close to historic developments on the financial markets the finance income generated by EMS totals CHF 66 million (102) - a highly satisfactory showing in a difficult year.

3.5 Shareholders' equity

Despite the full write-down of goodwill and restructuring costs charged to the 2001 operating results, **shareholders' equity** has again risen sharply, to CHF 1'317 million (1'170). As the balance-sheet total declined slightly to CHF 2'600 million (2'618), the equity ratio is an excellent 50.7 % (44.7 %). This is an industry benchmark, and reflects the many years of above-average earning power enjoyed by EMS. The **return on equity** amounted to 13.4 %, the average over the past five years is 21.9 %.

3.6 Deferred investments

In anticipation of a weakening general economic situation, EMS pruned its investment programme already for 2001. As a result, investments (CHF 82 million) remained significantly below the previous year's level of CHF 99 million. Broken down by countries, 84.2 % (70.1 %) of the total investment volume was applied in Switzerland, 8.5 % (5.7 %) in EU, 2.4 % (15.3 %) in the USA and 4.9 % (8.9 %) in Asia. Investments applied in the report year served the following purposes: capacity expansion 57.7 %, renewal/rationalisation 18.0 %, qualitative-technical enhancement 17.4 % and environment protection/safety 6.9 %. In view of the **cash flow** of CHF 274 million (316) these investments were easily financed from own resources.

4. Development of sales and income in the individual business fields

Business years, CHF millions	2001	% dev. against prev. year	% dev. prev. yr in local currencies
Net sales revenues			
EMS Group	**1'252**	+ 7.9 %	+12.5 %
- Performance Polymers	**920**	+ 9.2 %	+ 13.2 %
- Fine Chemicals	**195**	- 5.7 %	- 3.6 %
- Engineering	**137**	+22.9 %	+ 25.9 %
EBITDA [1]			
EMS Group	**258**	- 6.6 %	
in % of net sales revenues	**20.6 %**		
- Performance Polymers	**175**	+ 4.4 %	
in % of net sales revenues	**19.1 %**		
- Fine Chemicals	**40**	- 40.9 %	
in % of net sales revenues	**20.3 %**		
- Engineering	**43**	+4.4 %	
in % of net sales revenues	**31.7 %**		
EBIT [2]			EBIT 2001 after goodwill writedown
EMS Group	**193**	- 9.3 %	163
in % of net sales revenues	**15.4 %**		13.0 %
- Performance Polymers	**134**	+ 3.2 %	113
in % of net sales revenues	**14.6 %**		12.3 %
- Fine Chemicals	**26**	- 50.5 %	26
in % of net sales revenues	**13.3 %**		13.3 %
- Engineering	**33**	+ 7.5 %	24
in % of net sales revenues	**24.0 %**		17.7 %

[1] EBITDA = **E**arnings **b**efore **i**nterest, **t**axes, **d**epreciation and **a**mortization
= operational cash flow

[2] EBIT = **E**arnings **b**efore **i**nterest and **t**axes
= operating income

5. Capsule remarks on the individual business fields

In the **Performance Polymers** business field, the market for the new metal-substituting and high temperature resistant plastics developed positively. The introduction of the new technical fibre and adhesive products experienced a slowdown. The slump on the American automobile market and the world-wide decline in investment activities were also felt in this field.

Diverse developments are reported for the **Fine Chemicals** business field. EMS-PRIMID - the leading PMC hardener - progressed as expected. EMS-DOTTIKON has completed the comprehensive restructuring process; sales and in particular income were modest, which must be attributed to the CHF 20 million restructuring costs charged in full to 2001 operating income. The foundation for the future has now been laid; solid and continuous growth is forecast for the coming years.

In the **Engineering** business field, INVENTA-FISCHER was able to complete a number of projects and contributed to the sound income situation in this field. Despite the recessive trend in the automobile market EMS-PATVAG developed within the framework of expectations.

6. Outlook

Ongoing economic uncertainty on a major scale will continue to be a principal aspect of the current year. In Europe - the core market for EMS - economic development will be unsatisfactory. At this point in time EMS is inclined to expect the situation in the USA to show some improvement in the second half of the year. The Japanese economy will remain in a difficult phase. EMS therefore expects no significant increase of **operating income** for 2002.

However, the possibility that the drastic interest rate cuts in the USA will act as an economic booster, and that the associated money supply growth could trigger a powerful recovery (accompanied by inflationary bouts), cannot be ignored. EMS will continue to monitor these developments closely, and will take the necessary steps to ensure that its response will be swift and appropriate.

7. Schedule

- Quarterly report 2002	end of April 2002
- General meeting	17 August 2002
- First-half results 2002	end of August 2002
- Quarterly report 2002	end of October 2002
- Annual results 2002	March 2003

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