Herrliberg, 14 February 2003

MEDIA RELEASE

EMS Group: annual financial statements for 2002

- **Higher net operating income**
- **Higher margins**
- **Positive net financial income**

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** – succeeded in raising its high earnings level in 2002 in spite of a difficult market environment.

Net operating income (**EBIT**) increased to CHF 195 million, an increase of 19.3% on the previous year‘s figure of CHF 163 million. **EBITDA** rose by 1.2% to CHF 261 million (previous year: CHF 258 million). The **EBIT margin** was thus 16.0% (13.0%), the **EBITDA margin** 21.4% (20.6%). These margins are ahead of those of all our international competitors.

Net sales in local currencies rose by 2.8% year on year, but weakness in the most important foreign currencies translated this into a decline of –2.5% when expressed in Swiss francs: CHF 1'221 million (as against the previous year’s figure of CHF 1'252 million). There were no changes to the scope of consolidation.

Despite extraordinarily difficult conditions in the capital markets, EMS fulfilled expectations in its **net financial income**: it ended the year as expected with a positive balance of CHF 19 million (CHF 66 million).

Net income for the year after deducting taxes and minority interests was thus CHF 161 million, slightly ahead of expectations (CHF 176 million).

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2. 2002 earnings: key figures (CHF mn)

Fiscal year	**2002**	2001
Net sales	**1'221**	1'252
change	**-2.5%**	+7.9%
change in local currencies	**+2.8%**	+12.5%
Operational cash flow (EBITDA) 1)	**261**	258
change	**+1.2%**	-6.6%
in % of net sales	**21.4%**	20.6%
Net operating income (EBIT) 2)	**195**	163
change	**+19.3%**	-23.3%
in % of net sales	**16.0%**	13.0%
Net financial income	**19**	66
change	**-71.0%**	-35.8%
Income taxes	**49**	51
change	**-4.4%**	-9.7%
Net income 3)	**161**	176
change	**-8.7%**	-30.2%
in % of net sales	**13.2%**	14.1%
per share entitled to dividend in CHF	**308.41**	337.81
change	**-8.7%**	-30.2%
Cash flow 4)	**227**	274
in % of net sales	**18.6%**	21.9%
Investments	**71**	82
in % of cash flow	**31.4%**	29.9%
Shareholders' equity	**1'276**	1'437
balance sheet equity ratio	**40.5%**	53.3%
return on equity	**12.6%**	12.3%
per share entitled to dividend in CHF	**2'445.55**	2'754.15
change	**-11.2%**	+22.8%
Number of employees as of 31 December	**2'702**	2'731

1) EBITDA = **e**arnings **b**efore **i**nterest, **t**axes, **d**epreciation and **a**mortisation
= operational cash flow
2) EBIT = **e**arnings **b**efore **i**nterest and **t**axes
= net operating income
3) Net income = earnings after taxes less minority interests
4) Cash flow = net income plus depreciation and amortization

3. Sales and earnings: the year in brief

3.1 Sales

In terms of local currencies EMS achieved a net sales increase of 2.8% over the previous year. In terms of Swiss francs, **net sales** were CHF 1'221 million: 2.5% less than the previous year's figure of CHF 1'252 million. This decline is mainly attributable to the strength of the Swiss franc against all the most important currencies. There were no changes to the scope of consolidation.

Exports made up 92.0% of net sales (previous year: 91.5%). The regional breakdown was as follows: 58.3% (55.6%) to the EU, 10.2% (10.4%) to North America, 18.6% (20.5%) to the Far East and 4.9% (5.0%) to other countries. EMS achieved 8.0% (8.5%) of its net sales in Switzerland.

EMS continues to produce the bulk of its products in Switzerland: 66.1% (previous year: 65.6%). 19.9% (20.8%) was produced in the EU, 4.8% (4.7%) in the US and 9.2% (8.9%) in Asia.

3.2 Higher net operating income

The economic environment in 2002 was generally characterised by great uncertainty. Besides pressing on with the cost-cutting measures that were initiated when the economy was booming, EMS – true to the principle that uncertain times require costs to be minimised and freedom of movement maximised – has been attaching particular importance to the flexible exploitation of market opportunities. This enabled us to increase **net operating income (EBIT)** by 19.3% year on year, from the previous year's figure of CHF 163 million to CHF 195 million.

3.3 Positive net financial income

2001 was itself weak, and in 2002 the financial markets remained in a fragile condition. The **net financial income** of EMS reflects the gains **realised** during the fiscal year on securities and financial investments. Despite a market-related decline in investment income and net interest received, EMS' financial income in 2002 was once again positive at CHF 19 million (previous year: CHF 66 million).

In addition EMS established a favourable initial position by selling Lonza put options. Depending on the share-price movements EMS can thus either increase its equity holding in Lonza to over 20% or, in a more favourable equity-market environment, lock in gains to the benefit of its financial income.

3.4 Shareholders' equity

At CHF 1'276 million and 40.5% balance sheet equity ratio (previous year: CHF 1'437 million and 53.3%), **shareholders' equity** was within the target range. There were two reasons for this reduction: we took advantage of the favourable prevailing terms to increase debt through bond issues, and there were price corrections in financial investments (Lonza) and securities that are recorded directly as shareholders' equity in accordance with IAS 39. The **return on equity** in 2002 was 12.6% (previous year: 12.3%). Over the last five years it has averaged 17.4%.

3.5 Investments

Investment in fixed assets in 2002 totalled CHF 71 million (previous year: CHF 82 million). This was below the budgeted figure because of the postponement of a major project. 87.4% of this total was invested in Switzerland (previous year: 84.2%), 7.9% (8.5%) in the EU, 2.0% (2.4%) in the US and 2.7% (4.9%) in Asia. Funds deployed during the year under review served the following purposes: capacity increases 63.5%, replacement and rationalisation 8.9%, technical improvements 21.1%, environmental protection and safety 6.5%.

As in previous years we were able to fund investments from **cash flow**, which totalled CHF 227 million (previous year: CHF 274 million). It is a distinguishing feature of EMS that in bad years as well as good we always achieve a high **free cash flow**: in the year just ended this amounted to CHF 156 million, equivalent to 68.6% of total cash flow (previous year: CHF 192 million, 70.1%).

3.6 Long-term funding, high net cash position

EMS has taken advantage of its high financial standing and the favourable interest-rate environment to secure its long-term funding on advantageous terms. To this end EMS launched three public bond issues between April and July 2002 totalling CHF 950 million, thus reducing its average interest charge to around 3%. Our long-term funding is thus secure on favourable terms, with minimal bank borrowing.

EMS has high liquidity. As against interest-bearing debt capital of CHF 1'168 million (previous year: CHF 694 million), we hold interest-bearing assets (cash, securities, financial investments) of CHF 1'812 million (1'124 million), giving us a high net cash position of CHF 644 million (430 million).

4. Sales and earnings in the individual business divisions

Fiscal year (CHF mn)	**2002**	**% change on previous year**	% change on previous year in local currencies
Net sales			
EMS Group	**1'221**	-2.5%	+2.8%
- Performance Polymers	**880**	-4.4%	+1.6%
- Fine Chemicals	**205**	+5.5%	+8.1%
- Engineering	**136**	-1.1%	+3.5%
EBITDA [1)]			
EMS Group	**261**	+1.2%	
in % of net sales	**21.4%**		
- Performance Polymers	**177**	+0.9%	
in % of net sales	**20.1%**		
- Fine Chemicals	**46**	+15.6%	
in % of net sales	**22.3%**		
- Engineering	**38**	-10.7%	
in % of net sales	**28.6%**		
EBIT [2)]			
EMS Group	**195**	+19.3%	
in % of net sales	**16.0%**		
- Performance Polymers	**139**	+22.8%	
in % of net sales	**15.8%**		
- Fine Chemicals	**30**	+17.0%	
in % of net sales	**14.7%**		
- Engineering	**26**	+5.4%	
in % of net sales	**18.9%**		

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

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

5. The individual business divisions in brief

In the **Performance Polymers business division** the new metal-replacing and high-temperature-resistant plastics continued to perform well, though weakness in the European automotive sector led to a muted response to innovations from manufacturers. Accordingly it took longer to implement new projects.

The situation in the **Fine Chemicals business division** was mixed. The performance of EMS-PRIMID – the leading PMC hardener – was positive and within expectations. EMS-DOTTIKON achieved its ambitious sales targets, but was not as successful in terms of profitability.

In the **Engineering business division**, INVENTA-FISCHER posted solid performance roughly in line with that of the previous fiscal year. As a provider of airbag igniters, EMS-PATVAG is entirely dependent on the automotive industry – and in spite of weak activity in the sector it succeeded in increasing both sales and profits. The POWER STATIONS business unit was sold to NOK in two steps, the first at the end of 2002 and the second on 12 February 2003.

6. Distribution policy for fiscal 2002

On 8 January 2003, as part of its declared intention to achieve a substantial widening of its shareholder base, EMS announced that it was resuming a constant, innovative distribution policy. Further details will be announced in advance of the annual general meeting on 16 August 2003.

7. Outlook

2003 will continue to be dominated by major uncertainty about economic activity. EMS expects the performance of its principal market in Europe – as well as both the US and Japan – to remain sluggish, especially in the automotive industry. Political developments (war in Iraq) may continue to depress the markets. EMS expects the upturn to begin in the US, but not before the second half of 2003.

The overall economic outlook is not yet positive, and current developments in the currency field are unfavourable to EMS as a predominantly exporting company. We are thus redoubling our efforts to achieve a continued, lasting reduction in our cost base, and we expect operating income in 2003 to be at the same level as the previous year on a comparable basis. But in preparation for an economic upturn we are already increasing investments, particularly in equipment to increase capacities.

8. Schedule

- First-quarter report 2003	end of April 2003
- First-half results 2003	end of July 2003
- Annual General Meeting	16 August 2003
- Third-quarter report 2003	end of October 2003
- Annual results 2003	February 2004