



**44<sup>th</sup> ANNUAL REPORT 2006/2007**



EMS-CHEMIE HOLDING AG

Domat/Ems Switzerland

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## The EMS Group

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## Financial Statements

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	Share capital on December 31					
	2006	2005	2004 comparable <sup>5)</sup>	2004 reported	2003	2002
Number of shares as per articles of incorporation						
Bearer shares (par value CHF 50)	-	-	-	-	-	376 000
Registered shares (par value CHF 10)	-	-	-	-	-	729 300
Registered shares (par value CHF 0.01)	25 052 870	25 052 870	25 052 870 <sup>4)</sup>	25 052 870 <sup>4)</sup>	26 093 000 <sup>2)</sup>	-
Conditional capital	-	-	-	-	-	-
Authorized capital	-	-	-	-	-	-
Number of shares entitled to dividend on December 31						
Bearer shares	-	-	-	-	-	376 000
Registered shares	-	-	-	-	-	729 300
Registered shares	22 718 364	23 810 571	24 255 600	24 255 600	26 093 000	-
Treasury shares	2 334 506	1 242 299	797 270	797 270	-	-
Information per share: <sup>3)</sup>						
Dividend proposal per share in CHF	7.65 <sup>7)</sup>	6.50 <sup>6)</sup>	4.00	4.00	8.00	7.60 <sup>1)</sup>
Equity per share in CHF <sup>8)</sup>	48.15	44.64	36.48	44.71	56.57	50.58
Cash flow per share in CHF <sup>9)</sup>	15.67	9.85	9.87	10.77	15.77	8.87
Earnings per share in CHF						
basic*	-	-	-	7.33	4.10	6.17
diluted*	-	-	-	7.33	4.10	6.17
Earnings per share in CHF from continued activities						
basic*	12.99	7.27	6.96	-	-	-
diluted*	12.65	7.27	6.96	-	-	-
Earnings per share in CHF from discontinued activities						
basic*	-	0.03	0.37	-	-	-
diluted*	-	0.03	0.37	-	-	-
Stock prices in CHF <sup>10)</sup>						
High	147.00	116.90	99.21	107.25	108.00	130.00
Low	117.00	93.43	90.19	97.50	90.00	97.60
At 31.12.	146.60	116.50	94.36	102.00	97.00	101.60
Market capitalization on December 31 (CHF millions)	3 672.8	2 918.7	2 364.0	2 555.4	2 531.0	2 651.0

Registered shares are listed on the SWX Swiss Exchange and are traded on virt-x, an electronic trading system in London.

EMS-CHEMIE	Security number 1.644.035	ISIN CH0016440353	Investdata/Reuters identification EMSN
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\* calculated according to IAS 33

<sup>1)</sup> Dividend payment (KCHF 198 307) and reduction of par value of CHF 49.50 per existing bearer share and CHF 9.90 per existing registered share (nominal KCHF 25 832).

<sup>2)</sup> On November 3, 2003 the existing bearer shares were split at a ratio of 1:50 and the existing registered shares at a ratio of 1:10.

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

<sup>4)</sup> 1 040 130 registered shares were canceled as part of a share buyback on November 9, 2004.

<sup>5)</sup> The comparable figures for 2004 consist of continued activities.

<sup>6)</sup> CHF 5.00 ordinary dividend per share, CHF 1.50 special dividend per share.

<sup>7)</sup> CHF 5.50 ordinary dividend per share, CHF 2.15 special dividend per share.

<sup>8)</sup> Inclusive minority interests.

<sup>9)</sup> Cash flow = net income plus write-downs on intangible assets, property, plant and equipment plus value adjustments to securities and financial investments.

<sup>10)</sup> Source: Bloomberg.

## Chairman's Letter



*Dear Shareholders,*

This year I am delighted to be able to present you with the best set of financial results in the history of the EMS Group.

The consistent focus on Performance Polymers over the last three years has resulted in a substantial increase in net sales, net operating income and profit with above-average margins, even on a sector comparison. This confirms that we are right in our strategy of concentration on high-quality and high-margin speciality products in the Performance Polymers field, and that our internal restructuring policy is correct.

Over the past financial year, measures and projects initiated with a view to achieving growth and income targets, and to strengthen the competitive position of EMS, were implemented by Senior Management in a consistent and future-oriented way. This applies to product and application development as well as to sales and marketing, production and services.

Centre of focus of our thoughts and actions are and remain our customers, who we will continue to support with unique solutions, helping them to achieve success. Our customers trust the quality of our products and the reliability of our future-oriented innovation and improvement of speciality products and processes, as basis for our company's continued development.

I am therefore confident that EMS will continue to play a part in the medium-term business plans of its customers.

Pursuit of our clear-cut business strategy – consistent concentration on generating operative growth with

speciality products, above all in the Performance Polymers business area – will continue to form the basis for future-oriented development of the company.

This objective will be strengthened and supported by substantial investments in production and infrastructure, and by expanding our global customer-oriented market presence.

Assuming appropriately positive market developments, the internal prerequisites for continuing growth are in place. With entrepreneurial attitudes on the part of everybody involved, we intend to increase profit and company value, supported by a financial strategy that enables us to allocate financial resources with first priority to the development of our core activities. Additionally available funds will be returned to shareholders in an appropriate manner. The earlier announced further reduction in transactions involving volatile financial securities with a view to minimising entrepreneurial risk, is part of our financial strategy and was implemented with great success during the financial year.

Clear success factors which remain unchanged are our high innovative capacity, focus on customers and top operational performance, combined with the know-how, integrity and determination of all our employees, Senior Management and the Board of Directors.

On behalf of the Board of Directors I thank all our business partners, customers and development partners for their confidence and trust in EMS and for their loyalty to our company.

Moreover, I would like to express my great appreciation for our employees throughout the world, for their contribution to the advancement of EMS to the benefit of customers, shareholders and the employees themselves.

Our operating and strategic success has significantly increased both the company value of EMS and dividends paid. We are delighted that our shareholders will continue in future to see us as an attractive and reliable company. Thank you for your financial commitment, and for your continuing confidence in our mutual future. Your high expectations will continue to be an incentive for us.

Dieter Klug  
Chairman of the Board of Directors

Dear Shareholders,

As expected, 2006 was characterised by an upturn in global economic activity. The typical features of an economic boom were observed: Every news item was interpreted positively, good corporate profits boosted expectations of future results, stock markets all over the world set new records, take-overs were frequent, and investment was universal. Even political uncertainty did nothing to undermine the generally positive mood.

EMS achieved very satisfactory volume increases in 2006 with speciality products in Performance Polymers, our main business area. The result even exceeded our own expectations. Positive economic development throughout the world, and particularly strong demand in our main markets, Asia and Europe, made 2006 an extraordinarily good year for EMS. Net sales and net operating income were significantly above previous year's figures, and the EBIT margin – already very high in relation to competitors – was further increased despite higher raw-material prices.

EMS focuses clearly on operating business with Performance Polymers. Financial resources that are surplus to operating requirements will be returned to shareholders. Net financial income will consequently be less important in future. The existing shareholding in Lonza was declared to be a financial investment and reduced to less than 5% at the end of 2006. This constituted an important milestone in the implementation of the financial strategy. Successful sales of Lonza shares conducted in 2006 generated extraordinarily high net financial income and a high net profit.

EMS continues to strive for profitable growth with speciality products. The comprehensive programme to promote speciality products was therefore continued consistently. New speciality businesses established in previous years took effect, requiring increased production capacity. Several major investments were carried out successfully in 2006, and production capacity was significantly increased.

As the EMS Group's largest production site, Domat/Ems (CH) played a key role in the expansion of production capacity. Various measures were taken to increase efficiency, some of which broke new ground. Flexible annual working hours, with a normal 43-hour working week, were successfully



introduced. With the start of operations of the major industrial-scale biomass power station, wood is being efficiently exploited as an alternative energy source, replacing a substantial proportion of the fossil energy previously used. By 2009 EMS will have cut its CO<sub>2</sub> emissions by 80%.

The global economic environment is likely to be uneven in 2007. EMS will continue to monitor economic development, ensuring that it can respond rapidly and flexibly to events as they occur. The strategy of systematically promoting speciality products will continue regardless of economic developments. EMS expects to be in a position to continue to generate positive business results in 2007.

A handwritten signature in black ink that reads "M. Martullo". The signature is written in a cursive, flowing style.

Magdalena Martullo-Blocher  
Vice-Chairman of the Board of Directors  
and CEO



## Key Figures 2002 – 2006

	Calendar years, CHF millions					
	2006	2005	2004 comparable <sup>1)</sup>	2004 reported	2003	2002
Net sales revenue	1 395.9	1 253.3	1 149.0	1 267.0	1 220.7	1 220.9
Change in % against previous year	+11.4%	+9.1%		+3.8%	-0.0%	-2.5%
Change in local currencies	+10.3%	+8.4%		+4.3%	+1.7%	+2.8%
Change with identical scope of consolidation	+11.4%	+9.1%		+6.7%	+1.5%	-2.5%
Change in local currencies and with identical scope of consolidation	+10.3%	+8.4%		+7.3%	+3.2%	+0.3%
of which in Switzerland	4.8%	4.4%	4.5%	6.1%	5.5%	8.0%
Operating income	1 450.1	1 278.3	1 235.6	1 357.7	1 323.1	1 337.5
Change in % against previous year	+13.4%	+3.5%		+2.6%	-1.1%	+5.7%
Net operating income (EBIT)	246.8	216.4	203.4	217.8	197.3	194.9
Change in % against previous year	+14.1%	+6.4%		+10.4%	+1.3%	+19.3%
in % of net sales revenue	17.7%	17.3%	17.7%	17.2%	16.2%	16.0%
Net financial income	118.3	10.9	18.3	15.9	-58.2	19.0
Change in % against previous year	+981.2%	-40.2%		+127.3%	-406.0%	-71.0%
Net income before taxes	365.1	227.3	221.7	233.7	139.1	213.9
Change in % against previous year	+60.6%	+2.6%		+68.0%	-35.0%	-6.6%
Income taxes	57.4	45.5	41.3	43.9	25.7	49.0
Change in % against previous year	+26.3%	+10.1%		+70.6%	-47.5%	-4.4%
Net income (inclusive minority interests)	307.7	181.9	180.4	189.8	113.4	164.9
Change in % against previous year	+69.2%	+0.8%		+67.5%	-31.3%	-7.3%
in % of net sales revenue	22.0%	14.5%	15.7%	15.0%	9.3%	13.5%
Depreciation and amortization of intangible assets and property, plant and equipment	51.1	53.9	56.9	69.8	68.4	66.5
Cash flow <sup>2)</sup>	358.8	239.0	246.9	269.2	411.4	231.4
Change in % against previous year	+50.1%	-3.2%		-34.6%	+77.8%	-16.1%
in % of net sales revenue	25.7%	19.1%	21.5%	21.2%	33.7%	19.0%
Investments	64.3	48.8	45.5	52.9	70.6	71.5
in % of cash flow	17.9%	20.4%	18.4%	19.6%	17.2%	30.9%

<sup>1)</sup> The comparable figures for 2004 consist of continued activities.

<sup>2)</sup> Cash flow = net income plus write-downs on intangible assets, property, plant and equipment plus value adjustments to securities and financial investments.

	Calendar years, CHF millions					
	2006	2005	2004 comparable <sup>1)</sup>	2004 reported	2003	2002
Balance sheet total	2328.6	2350.4	2322.6	2592.5	3117.6	3166.9
Assets						
Current assets	1733.0	1816.9	1724.5	1819.3	2297.4	1835.5
Non-current assets	595.6	533.5	598.1	773.2	820.2	1331.4
Equity and liabilities						
Current liabilities	339.0	315.0	293.7	313.0	360.8	440.0
Non-current liabilities	886.8	952.6	1116.5	1161.2	1280.7	1407.1
Equity <sup>2)</sup>	1102.7	1082.9	912.3	1118.2	1476.1	1319.9
Balance sheet equity ratio	47.4%	46.1%	39.3%	43.1%	47.3%	41.7%
Return on equity	27.9%	16.8%	19.8%	17.0%	7.7%	12.5%
Number of employees on December 31*	2061	2055	2078	2459	2637	2702
Fire insurance value of property, plant and equipment	1382.7	1429.0	1362.7	1808.5	1855.5	1933.9

\* Excluding apprentices (2006: 112; 2005: 119; 2004 comparable: 124; 2004 reported: 158; 2003: 154; 2002: 153)

<sup>1)</sup> The comparable figures for 2004 consist of continued activities.

<sup>2)</sup> Inclusive minority interests.

## General Information on the Financial Year 2006 at the EMS Group

### Business performance

In the 2006 financial year the EMS Group significantly increased net sales revenue and net operating income (EBIT), actually exceeding its own expectations. The consistent focus on speciality products in the Performance Polymers business area once more generated very satisfactory development of business and sales volumes.

Net sales revenue rose by 11.4% over the previous year to CHF 1396 million (1253). The gain in local currencies amounted to 10.3%.

Net operating income (EBIT) was boosted by 14.1% over the previous year to CHF 247 million (216) and EBITDA by 10.2% to CHF 298 million (270). The EBIT margin was 17.7% (17.3%).

Net financial income amounted to an extraordinarily high CHF 118 million (11), primarily as a result of the successful sales of shares from the Lonza investment.

Net income after taxes increased to CHF 308 million (182).

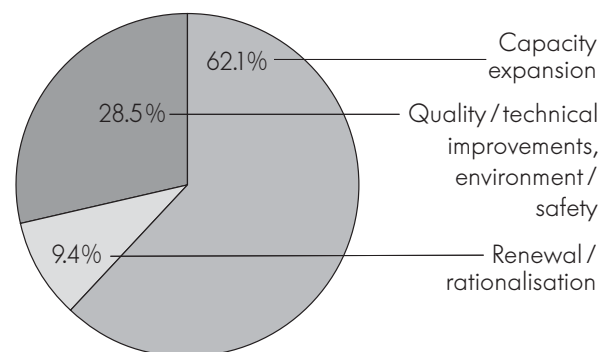
EMS continues to pursue its strategy of consistent focus on operative growth with speciality products in the Performance Polymers business area in particular.

The global economic environment is likely to be uneven in 2007. While Europe and Asia continue to post a very positive economic performance, there are indications of a possible slow-down in North America. EMS continuously monitors economic development, ensuring that it can respond rapidly and flexibly to events as they occur. No further extraordinary financial income is expected in 2007. As a result, net financial income will be substantially lower than in 2006. Net sales revenue and net operating income (EBIT), however, are expected to be slightly above the previous year's figures.

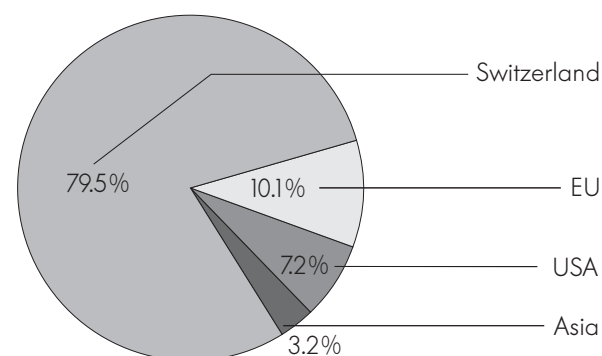
### Investment

Investment amounted to CHF 64 million (49). Due to the high operational cash flow level of CHF 298 million (270), investment was once again funded from internal resources. The fact that a high free cash flow is always generated, in good as well as in critical years, is a characteristic of the EMS Group.

### Investment by application



### Investment by country and region



### Management structure

At the 2006 General Meeting Dieter Klug, Magdalena Martullo, Egbert Appel, Dr. Hansjörg Frei and Albert Reich were elected to the Board of Directors for a further one-year term of office. Dr. Werner Prätorius was also elected as a new member of the Board of Directors for a one-year term.

### Personnel

At the end of the financial year, the two business areas forming the EMS Group employed a total of 2061 (2055) people (excluding apprentices), of which 1220 (1229) work in Switzerland, 466 (476) elsewhere in Europe, 269 (241) in Asia and 106 (109) in the USA. At the end of the year the EMS Group employed 112 (119) apprentices in Switzerland in 12 (12) vocational fields. A total of 34 (35) apprentices successfully completed their apprenticeship during the financial year.



### Research and development

Expenditure on research and development in the financial year was 3.6% (3.7%) of net sales revenue (see note 5 in the financial statement). Development activities focused primarily on the programme initiated in 2004 to promote speciality products.

### Breakdown of EMS Group net sales revenue by country/region

Germany	27.6%
Japan	9.6%
USA	8.8%
France	8.0%
China	6.3%
Italy	6.2%
Switzerland	4.8%
Great Britain	4.8%
Spain	3.9%
Austria	2.2%
Taiwan	1.7%
Sweden	1.6%
Belgium	1.4%
South Korea	1.3%
Netherlands	1.1%
Finland	1.1%
Rest of Europe	4.9%
Others	4.7%

### Breakdown of EMS Group production by country/region

Switzerland	59.6%
Germany	12.1%
Japan	6.7%
Belgium	5.9%
USA	4.7%
Great Britain	3.6%
Taiwan	3.0%
China	1.9%
Spain	1.9%
Others	0.6%

## Business areas

The EMS Group operates globally in the business areas of Performance Polymers and Fine Chemicals/Engineering. These business areas are further broken down into Business Units.

### Performance Polymers

EMS-GRIVORY comprises four independent Business Units holding profit responsibility. It produces top-quality, custom-made performance polymers (granulates). Thanks to their high performance and cost-cutting processing qualities, these materials are used in a variety of applications, mainly in the automotive and electronics industries. EMS-GRIVORY Performance Polymers specialises in innovative solutions for injection moulding customers in Europe. EMS-GRIVORY Extrusion Polymers focuses on extrusion, extrusion blow moulding and packaging applications in Europe. EMS-GRIVORY Asia operates in the growth market Asia. EMS-GRIVORY America is responsible for the business in North America.

Business Unit EMS-GRILTECH specialises in hot melt adhesives for technical and textile applications and in special fibres for paper machines.

Business Unit EMS-TOGO as a specialist for bonding, sealing and coating, serves the global automotive industry.

In 2006 the business area Performance Polymers generated net sales revenue of CHF 1 266 million (1 118) and net operating income (EBIT) of CHF 214 million (179). The business area actually exceeded its planned growth, primarily increasing sales

volume with speciality products. The development of the European and Asian markets as well as applications for high-temperature polymers was particularly satisfactory.

### Fine Chemicals/Engineering

Business Unit EMS-PRIMID specialises in crosslinkers for environmentally compatible powder coatings, bonding agents for the tyre industry, and epoxy compounds used in the manufacture of civil-engineering products.

Business Unit EMS-PATVAG produces ignitors for airbag gas generators.

Business area Fine Chemicals/Engineering generated net sales revenue of CHF 130 million (136) and net operating income (EBIT) of CHF 33 million (37). The decline in net sales revenue and net operating income compared to the previous year can be attributed primarily to EMS-PATVAG, where increasing price pressure due to weaker market growth had the expected negative effect. EMS-PRIMID developed according to plan.

EMS-CHEMIE HOLDING AG is committed to responsible corporate governance and monitoring. The order of the following chapters conforms to that of the SWX Swiss Exchange Directive on Information Relating to Corporate Governance (DCG) which entered into force on July 1, 2002. Detailed principles and rules are also laid down in the company's Articles of Association at [www.ems-group.com/ar/articlesofassociation](http://www.ems-group.com/ar/articlesofassociation) and in the Organizational Rules of the EMS Group at [www.ems-group.com/ar/organizationalrules](http://www.ems-group.com/ar/organizationalrules).

The companies of the EMS Group are grouped together in the EMS-CHEMIE HOLDING AG, with its registered office in Domat/Ems, Switzerland. EMS-CHEMIE HOLDING AG is the only listed company within the consolidated group of companies. EMS registered shares (EMSN, security number 1.644.035) are listed on the SWX Swiss Exchange and traded on virt-x, an electronic trading system based in London. As of December 31, 2006, the market capitalization of EMS amounted to CHF 3 672.8 million. None of the subsidiaries hold any EMS registered shares.

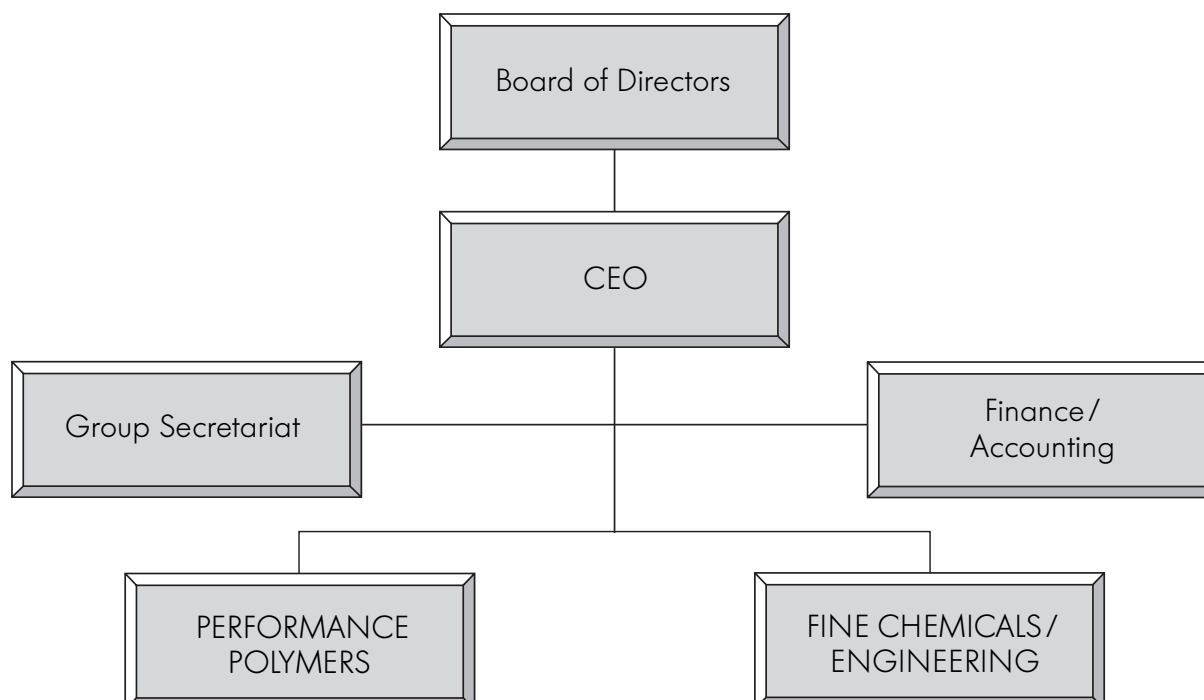
## 1. Group structure and shareholders

### 1.1 Group structure

The EMS Group is active worldwide in the two business areas Performance Polymers and Fine Chemicals/Engineering. The organizational breakdown is based on product types. The Group operating structure is as follows:

An overview of the unlisted subsidiaries of the EMS Group can be found in note 32 in the Financial Section.

Segment reporting by business area and geographical region can be found on page 34.



### 1.2 Significant shareholders

As of December 31, 2006, two shareholders each held more than 5% of the equity of EMS-CHEMIE HOLDING AG: Emesta Holding AG, Zug (53.47%) and the company itself, EMS-CHEMIE HOLDING AG (treasury shares, 9.32%).

As of February 19, 2007, three shareholders each held more than 5% of the equity of EMS-CHEMIE HOLDING AG: Emesta Holding AG, Zug (47.48%), Miriam Blocher (7.86%) and the company itself, EMS-CHEMIE HOLDING AG (treasury shares, 9.32%).

### 1.3 Cross-shareholdings

There are no cross-shareholdings with other companies.

## 2. Capital structure

### 2.1 Capital/2.2 Authorized and conditional capital in particular

The ordinary share capital of EMS-CHEMIE HOLDING AG amounts to CHF 250 528.70. No authorized or conditional capital exists.

### 2.3 Changes in capital

Information on capital changes can be found on page 3 (Spotlight on Share Performance) and in the financial section on page 24 (Consolidated Changes in Equity of the EMS Group).

### 2.4 Shares and participation certificates/ 2.5 Profit sharing certificates

The fully paid share capital is divided into 25 052 870 registered shares with a par value of CHF 0.01 each. All registered shares are entitled to dividends. Each registered share entitles the holder to one vote at the General Meeting. No participation certificates or profit sharing certificates exist.

### 2.6 Limitations on transferability and nominee registrations

On request, purchasers of the shares of EMS-CHEMIE HOLDING AG are entered in the share register as voting shareholders without restrictions, provided they expressly declare that the registered shares were acquired in their own name and on their own account.

The Board of Directors may enter people whose request for registration does not include an express declaration that they hold the shares on their own account ("Nominees"), and with whom the company has entered into an agreement to this effect, in the register of shareholders with voting rights up to a maximum of 2% of the share capital entered in the commercial register.

The Articles of Association do not provide for any privileges or restrictions on transferability.

### 2.7 Convertible bonds and warrants/options

Details of the two outstanding convertible bonds are set out in note 18 in the Financial Section. No warrants/options have been issued.

## 3. Board of Directors

### 3.1 Members of the Board of Directors /

### 3.2 Activities and vested interests

#### Board of Directors

Name	Nationality	Status	Year of birth	First elected in	Term of office expires
Dieter Klug	German	Non-executive	1937	January 2004	2007
Magdalena Martullo	Swiss	Executive	1969	August 2002	2007
Egbert Appel	German	Non-executive	1949	January 2005	2007
Dr Hansjörg Frei	Swiss	Non-executive	1941	January 2003	2007
Dr Werner Prätorius	German	Non-executive	1946	September 2006	2007
Albert Reich	Swiss	Executive	1943	January 2004	2007

On December 31, 2006, the Board of Directors of EMS-CHEMIE HOLDING AG consisted of the following six members:

**Dieter Klug** (born in 1937, German citizen, Graduate Engineer) has been the non-executive Chairman of the Board of Directors since January 2004. From 1992 to 2002 he was President and CEO of Netstal-Maschinen AG, Näfels. Dieter Klug has 30 years' management experience in the capital-goods industry, in particular the plastics engineering and plastics processing industry, where he gained widely-diversified strategic and operational experience as CEO of various large and medium-sized international companies. In addition, Dieter Klug was a member of the Board of Directors of Netstal-Maschinen AG, Näfels, until September 2006.

**Magdalena Martullo-Blocher** (born in 1969, Swiss citizen, Masters Degree in Economics) has been executive Vice-Chairman of the Board of Directors since August 2002 and CEO since January 2004. She joined the EMS Group in January 2001 and became a member of the Board of Directors in August 2001. From 1996 until 2000 Magdalena Martullo was with Rivella AG, where her last position was Head of Marketing for Switzerland and member of the company's extended Senior Management. From 1994 to 1996 she was Product Manager with Johnson & Johnson AG, prior to which she worked in various positions, both in Switzerland and abroad. As CEO, Magdalena Martullo bears overall operat-

ing responsibility for the EMS Group. She has been a member of the Executive Board of SGCI Chemie Pharma Schweiz since June 2004.

**Egbert Appel** (born in 1949, German citizen, lawyer) has been a non-executive member of the Board of Directors since January 2005. He has worked for Hilti AG in Schaan, Liechtenstein, for 24 years and was appointed to Senior Management in 1994, where he headed Human Resources, Financing and Information Technology until the end of 2006. Before joining Senior Management he worked as General Manager in Japan and Germany, as well as Branch Manager and Head of Human Resources of Hilti Deutschland. Prior to this, he was Head of Human Resources and secretary to the Board of Directors of an industrial group. Since January 2007 Egbert Appel has been a trustee of the Martin Hilti Family Trust and Managing Director of the Hilti Foundation. Since October 2006 he has been a Council Member of Unitech International, a network of Europe's best technical universities.

**Dr Hansjörg Frei** (born in 1941, Swiss citizen, Doctor of Law) has been a non-executive member of the Board of Directors and Chairman of the Pension Fund of the EMS Group since January 2003. Until mid-2003 he held various leading positions in the insurance industry, where his last position from 2000 was as a member of Senior Management at Credit Suisse Financial Services (Head of International Country Management). Before that, from 1991, he

was a member of Senior Management in charge of Swiss operations for the Winterthur Insurance Company. From 2000 to 2003 he was Chairman of the Swiss Insurance Association (ISV). Dr Hansjörg Frei has been a non-executive member of the Board of Directors of Bâloise-Holding since 2004 and Chairman of the SVP (Schweizerische Volkspartei, Swiss People's Party) for the Canton of Zurich since 2006.

**Dr Werner Prätorius** (born in 1946, German citizen, Doctor of Chemical Engineering) has been a non-executive member of the Board of Directors since September 2006. He spent almost 30 years with BASF, where he accumulated a wide variety of national and international experience. From 1996 to 2006 he was successively Head of the Divisions of Engineering Plastics, Styrenic Polymers and Petrochemicals. Dr Prätorius has also been a member of the most important European trade organizations for chemicals and plastics such as the Association of Plastics Manufacturers in Europe (1994 – 2004), the Association of European Petrochemicals Producers (2002 – 2006) and the European Petrochemical Association (2001 – 2006).

**Albert Reich** (born in 1943, Swiss citizen, Chemical Engineer) has been an executive member of the

Board of Directors since January 2004. Between 1970 and 1998 he held various management positions within the EMS Group, in research, production, application technology, marketing and sales. He assumed responsibility for the EMS-PRIMID Business Unit in 1999 and for the EMS-GRIVORY Business Unit in 2001. From January 2004 until December 2006 Albert Reich was a member of the Senior Management of the EMS Group.

None of the non-executive members of the Board of Directors have ever been a member of any Senior Management within the EMS Group. None currently have a direct or indirect business relationship with companies in the EMS Group.

### 3.3 Cross-involvement

With the exception of Dr Hansjörg Frei, who has been a non-executive member of the Board of Directors of Bâloise-Holding since 2004, no member of the Board of Directors has any cross-involvements.

### 3.4 Elections and terms of office

Each member of the Board of Directors is elected individually by the General Meeting for a one-year term of office. There is no limit on the total term of office; members may be re-elected.

#### Board of Directors

Name	Function	Attendance at meetings		
		Board of Directors	Audit Committee	Compensation Committee
Dieter Klug	Chairman	7	8	1
Magdalena Martullo	Vice-Chairman and CEO	7		
Egbert Appel	Member	6		1 <sup>1</sup>
Dr Hansjörg Frei	Member	7	8 <sup>1</sup>	1
Dr Werner Prätorius	Member (from September 2006)	2		
Albert Reich	Member	7		
Total meetings		7	8	1
Total duration (hours)		4 – 6	2 – 4	3

<sup>1</sup> Chairman



### 3.5 Internal organizational structure

#### Duties of the Board of Directors

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The Board of Directors is the highest executive body of the EMS Group. It is responsible for supervising and monitoring the company's management and that of its affiliated companies which together form the EMS Group. Every year at its constituent meeting, the Board of Directors elects a Chairman and a Vice-Chairman from among its members. The Board of Directors has delegated most of the operational management of the EMS Group to the CEO. Special tasks can be delegated to individual members of the Board of Directors or to separate special committees.

#### Board committees: Members list, tasks, area of responsibility

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Two committees exist: the Audit Committee and the Compensation Committee. These Board committees have assessment, advisory and monitoring functions but no decision-making powers.

The Audit Committee consists of two non-executive, independent members of the Board of Directors: Dr Hansjörg Frei, Chairman, and Dieter Klug, member. It assesses the effectiveness of external reporting, internal finance and accounting, internal control systems and compliance with accounting principles. The Audit Committee makes recommendations to the entire Board of Directors regarding presentation of individual and consolidated financial statements to the General Meeting. It also assesses the performance and remuneration of the external auditors.

The Compensation Committee consists of three non-executive members of the Board of Directors: Egbert Appel, Chairman, Dr Hansjörg Frei, member, Dieter Klug, member. The Compensation Committee is concerned with the remuneration policy of the EMS Group (Board of Directors, Senior Management, senior executives).

#### Work methods of the Board of Directors and its committees

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The Board of Directors and its committees meet as frequently as business demands. The Board of Directors meets at least six times a year. The Board of Directors held seven meetings in 2006, each lasting

between four and six hours. The Audit Committee held eight meetings, each lasting between two and four hours while the Compensation Committee held one three-hour meeting.

The Head of Finance (CFO) also attends the meetings of the Board of Directors. Other members of Senior Management and Heads of Business Units are invited to attend meetings of the Board of Directors when it discusses matters relevant to their areas of responsibility. A majority of the members of the Board of Directors must be present for decisions to be made. The Board of Directors makes decisions and carries out elections with a majority of the members present at the meeting. In the event of a tie the Chairman has the casting vote. Resolutions can also be passed by way of telephone conferences or by circular, provided that no member requests discussion in person. Resolutions passed in this way must be unanimous to be valid. Individual members are obliged to abstain from voting on personal matters or on matters involving persons with whom they are closely associated.

Members of Senior Management are invited to attend committee meetings when they discuss matters relevant to their areas of responsibility. The provisions relating to meetings and resolutions of the Board of Directors and to the requirement for its members to abstain, also apply to the committees. At the next plenary meeting of the Board of Directors after their committees have met, the committee Chairmen report on their proceedings and submit proposals to the Board for its decision. Further details of internal organization can be found in the Organizational Rules of the EMS Group at [www.ems-group.com/ar/organizationalrules](http://www.ems-group.com/ar/organizationalrules).

### 3.6 Definition of areas of responsibility between the Board of Directors and Senior Management

The Board of Directors makes decisions regarding all matters not reserved by law, the Articles of Association or the Organizational Rules to the General Meeting or another body. Subject to article 716a of the Swiss Code of Obligations (non-transferable and inalienable duties of the Board of Directors), the Board of Directors has delegated most operative management of the EMS Group to Senior Management. These duties and responsibilities

particularly include proposing the strategy for the EMS Group to the Board of Directors, achieving the operative and financial results of the EMS Group, reviewing the budgets and medium-term plans of Business Units, deciding on scheduled capital investments up to CHF 5 million and on unscheduled capital investments up to CHF 0.5 million, reaching decisions on the procurement of external capital (e.g. bonds, bank loans) up to CHF 30 million, issuing guarantees in accordance with the guarantee concept proposed to the Board of Directors, receiving periodic reports on business performance and all other significant events, deciding on the initiation and conduct of legal proceedings and submitting proposals to the Board of Directors for legal proceedings of fundamental significance, approving the organization up to the level of employees directly subordinate to Heads of Business Units, submitting proposals to the Board of Directors on the acquisition and disposal of equity holdings, assigning powers to the members of the foundation council who protect the interests of the employer in EMS Group pension schemes, proposing authorised signatories to the Board of Directors, permitting heads of Business Units and their direct subordinates to accept seats on Boards of directors, political office or honorary office, enacting the rules of the EMS Group and maintaining personal contact with senior managers of other companies and with important customers.

### 3.7 Information and control instruments vis-à-vis the Senior Management

At the end of each month the Board of Directors receives a written report from the CEO regarding business performance during that month and the expected monthly result. On the 4<sup>th</sup> working day of the following month it receives the monthly income statement with the most important key figures, which are compared with the budgeted figures and those of the previous year. It is also provided, in the same detail, with monthly updated forecast calculations for the end of the year. This serves to monitor the achievability of the budget. If actual monthly results deviate from the budget by more than 10%, the CEO submits a report to the Board of Directors by the middle of the following month analysing the shortfall and detailing corrective measures, both planned and already implemented. In addition the Board of Directors receives consolidated quarterly financial statements prepared in accordance with

IFRS. Along with the income statement, these mainly provide information on the balance sheet, the cash-flow account and changes in shareholders' equity. In addition, at each meeting of the Board of Directors the CEO and CFO report on the course of business and on all matters relevant to the Group, while the two committee Chairmen report on the matters they have dealt with, detailing their significant findings and assessments and submitting proposals accordingly. Every year the Board of Directors discusses and approves the budget for the following year, as well as rolling medium-term planning for the next three years. The CEO informs the members of the Board of Directors of any extraordinary events without delay by circular or other appropriate means. At Board meetings, any member of the Board may request information from other members or from Senior Management on any of the company's affairs. Between meetings of the Board of Directors any member may request information from the CEO on the course of business, and – with the approval of the Chairman – on specific business events, and/or may inspect business documents. At their own discretion, members of the Board of Directors visit group companies and participate in the two-monthly Management Meetings held by Senior Management with the Heads of the Business Units in order to form an independent view of the Group's operating activities and the implementation of its strategy.

During the year under review Group Financial Control conducted 16 audits at Group companies, mainly focusing on bookkeeping and compliance. Group Financial Control discusses all audit findings in detail with the companies and Business Units concerned, and the most significant measures are agreed on. In the event of disagreement between the auditors and the company audited, the different positions are stated transparently. An audit report is prepared containing the overall audit findings. Members of the Audit Committee, the CEO and the CFO each receive a copy of every audit report. Following each audit report, the CEO and CFO present the Audit Committee with the measures to be implemented by Group management. All significant measures are continuously monitored by the Audit Committee. In the event of discrepancies the CEO and CFO must comment on them and present proposals for corrective measures. Although Group Financial Control is subordinate to the CFO, it

reports directly to the Chairman of the Audit Committee with regard to these activities. The legal service of the EMS Group reports regularly to the Board of Directors on any legal changes important to EMS. Group Financial Control regularly keeps the Audit Committee informed of changes in the field of accounting. Twice a year the Audit Committee is notified of all litigation cases that are under way or pending. Besides the status of the individual cases, the report focuses on risks and opportunities they represent, costs and other possible effects.

During the year under review a comprehensive IT audit, with focus on IT security, was conducted by a specialised external consultant. A comprehensive risk analysis of the pension arrangements of foreign Group companies was also carried out by another specialised external consultant.

Risk management constitutes an integral component of planning and reporting activities at EMS. At Senior Management and Business Unit level, threats are identified annually as part of medium-term planning procedure and preparation of the budget for the following year. They are then weighted according to the gravity of the threat and probability of its occurrence. The identification and assessment of changes in risk play an important part in this process. Measures are defined to reduce significant risks. The CEO and CFO report to the Audit Committee half-yearly on the magnitude of these risks and the implementation status of the measures taken to counter them. They also report to the Board of Directors in the course of planning discussions.

## 4. Senior Management

### 4.1 Members of the Senior Management /

### 4.2 Activities and vested interests

On December 31, 2006, Senior Management of EMS-CHEMIE HOLDING AG consisted of the following four persons:

**Magdalena Martullo-Blocher** (born in 1969, Swiss citizen, Master of Business Administration) has been executive Vice-Chairman of the Board of Directors since August 2002 and CEO since January 2004. She joined the EMS Group in January 2001 and became a member of the Board of Directors in August 2001. From 1996 until 2000 Magdalena Martullo was with Rivella AG, where her last position was Head of Marketing for Switzerland and member of the company's extended Senior Management. From 1994 to 1996 she was Product Manager with Johnson & Johnson AG, prior to which she worked in various positions, both in Switzerland and abroad. As CEO, Magdalena Martullo bears overall operating responsibility for the EMS Group. She has been a member of the Executive Board of SGCI Chemie Pharma Schweiz since June 2004.

**Reto Fintschin** (born in 1948, Swiss citizen, Engineer) has been a member of Senior Management since July 2006. He has been with EMS since 1974, interrupted by four years as head of sales and marketing with another Swiss company. He has held various senior positions in sales and marketing with the EMS Group, including CEO of the UK sales company, Division Leader of Technical Thermoplastics until 1998 and Division Leader of Technical Fibres and Adhesives until 2000, when he assumed responsibility for the Business Unit EMS-GRILTECH.

**Peter Germann** (born in 1959, Swiss citizen, Master of Arts) has been the EMS Group's Head of Finance (CFO) since 1994 – interrupted by one year as Head of Finance with the Ascom Group – and a member of Senior Management since January 2004. Peter Germann previously held a variety of management positions, his last position being Head of Finance with the Arbonia-Forster Group.

**Albert Reich** (born in 1943, Swiss citizen, Chemical Engineer) was a member of the EMS Group's Senior Management from January 2004 until December 2006. Since January 2004 he has also been an

executive member of the Board of Directors. Between 1970 and 1998 he held various management positions within the EMS Group, in research, production, application technology, marketing and sales. He assumed responsibility for the Business Unit EMS-PRIMID in 1999 and for the Business Unit EMS-GRIVORY in 2001.

Members of Senior Management are nominated by the CEO and appointed by the Board of Directors. They are subordinate to the CEO, whom they assist in the task of managing and supervising the EMS Group. Senior Management meets every two weeks. In addition, the Head of the Group Secretariat attends these meetings in an advisory capacity. The duties and responsibilities of Senior Management are listed in section 3.6. They are also given in the Organizational Rules of Senior Management at [www.ems-group.com/ar/organizationalrules](http://www.ems-group.com/ar/organizationalrules).

#### 4.3 Management contracts

No management contracts with third parties exist.

### 5. Compensations, shareholdings and loans

#### 5.1 Content and method of determining the compensation and the shareholding programmes

The compensation system for members of the Board of Directors and Senior Management consists of a basic salary and a bonus, which is paid out exclusively in cash. Bonus payments are not dependent on the basic salary. The bonus is a major component of the overall compensation package. The principal criteria for setting the bonus are the achievement of targets for net profit and sales and the achievement of project objectives. Otherwise no guidelines exist for the compensation system. If targets are not achieved, the bonus may be lost. The level of overall compensation depends on the individual's responsibilities, the complexity of the assigned duties and market conditions. Individual overall compensation packages are proposed by the Compensation Committee and approved by the Chairman of the Board of Directors, after consultation with the CEO, in April of the following year. They are paid out in May.

EMS has no shareholding programmes.

#### 5.2 Compensations for acting members of governing bodies

Compensation paid to executive members of the Board of Directors and to members of Senior Management in 2006 totalled CHF 2 987 315.

Compensation paid to non-executive members of the Board of Directors in 2006 totalled CHF 1 467 684.

No contractual severance payments were made.

#### 5.3 Compensations for former members of governing bodies

No compensation was paid to former members of executive bodies.

#### 5.4 Share allotment in the year under review

No shares were allotted.

#### 5.5 Share ownership

As of December 31, 2006, executive members of the Board of Directors and members of Senior Management and parties closely linked to such persons, held together a total of 559 555 registered shares, which is equivalent to 2.23% of voting rights.

As of the same date, non-executive members of the Board of Directors as well as parties closely linked to such persons, held together a total of 18 830 registered shares, which is equivalent to 0.08% of voting rights.

#### 5.6 Options

No options were granted.

#### 5.7 Additional fees and remunerations

During the year under review, no invoices were received from any member of the Board of Directors or Senior Management or parties closely linked to such persons, for additional services provided to EMS-CHEMIE HOLDING AG or its subsidiaries.

#### 5.8 Loans to members of governing bodies

No loans, advances or credits were advanced to any member of the Board of Directors or Senior Management or parties closely linked to such persons. No loans to members of executive bodies are outstanding from previous years.

### 5.9 Highest total compensation

The highest total compensation of a member of the Board of Directors in the year under review was CHF 1 111 566. No shares or options were allotted.

## 6. Shareholders' participation

Shareholders' participation rights are laid down in the Articles of Association of EMS-CHEMIE HOLDING AG ([www.ems-group.com/ar/articlesofassociation](http://www.ems-group.com/ar/articlesofassociation)).

### 6.1 Voting-rights and representation restrictions

Voting-rights restrictions apply solely to nominees. No rules exist governing the granting of exceptions.

A registered shareholder may only be represented at the General Meeting by his legal representative, by another shareholder entitled to vote, by the representative of the executive bodies, by an independent proxy holder or a proxy of deposited shares. Shares held by the company do not confer voting rights at the General Meeting and do not bear a dividend.

### 6.2 Statutory quorums

Except where the law provides otherwise, decisions taken by the General Meeting are passed by an absolute majority of the votes represented at the General Meeting.

### 6.3 Convocation of the General Meeting of shareholders

The ordinary General Meeting is convened in accordance with legal requirements and the company's Articles of Association. It is convened by a single publication in the Swiss Official Gazette of Commerce and by written invitations sent to the addresses of the shareholders and beneficiaries entered in the share register. Extraordinary General Meetings are held in the cases prescribed by law and as required.

### 6.4 Agenda

One or more shareholders representing together 10% or more of the company's shares may request that a particular item be added to the agenda.

A request to add an item to the agenda must be submitted in writing at least 40 days in advance of the General Meeting, specifying the subject to be discussed and containing the proposed motion.

### 6.5 Inscriptions into the share register

The cut-off date for entering registered shareholders in the register of shareholders so that they can participate in the General Meeting is 20 days before the General Meeting. Registered shares sold between the cut-off date and the General Meeting do not carry voting rights. No rules exist governing the granting of exceptions.

## 7. Changes of control and defence measures

### 7.1 Duty to make an offer

According to Article 3, paragraph 2 of the Articles of Association, a party acquiring shares in EMS-CHEMIE HOLDING AG is not obliged to submit a public purchase offer.

### 7.2 Clauses on changes of control

No clauses on changes of control exist.

## 8. Auditors

### 8.1 Duration of the mandate and term of office of the lead auditor

KPMG AG, Badenerstrasse 172, 8026 Zurich, have acted as the statutory auditors of EMS-CHEMIE HOLDING AG and as Group auditors since 2004. The statutory and Group auditors are appointed by the General Meeting for a one-year term of office. Hanspeter Stocker has been the responsible auditor in charge since 2004.

### 8.2 Auditing fees

The EMS Group paid KPMG AG a global total of approximately CHF 482 000 for services relating to the audit of the Group's annual financial statements. The net sales revenue audited by KPMG AG accounts for approximately 54% of the EMS Group's total net sales.

### 8.3 Additional fees

KPMG AG charged a global total of approximately CHF 390 000 for additional management and tax-consultancy services and due diligence audits.

### 8.4 Supervisory and control instruments pertaining to the audit

The Audit Committee monitors the independence and performance of the independent statutory auditors on behalf of the Board of Directors and verifies the financial reporting of EMS. It held eight meetings during the year under review. The independent statutory auditors were invited to attend one meeting.

Senior Management is responsible for financial accounting and continuous financial reporting, including the internal monitoring system. The independent statutory auditors, KPMG AG, are responsible for submitting an opinion on whether the accounting records and the annual financial statements comply with Swiss law and the company's Articles of Association. The independent Group auditors, KPMG AG, are responsible for providing an assessment of the consolidated financial statements (income statement, balance sheet, changes in equity, cash flow statement and notes), in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and with Swiss law. The Audit Committee is also responsible for monitoring the relevant activities of Senior Management and the independent statutory auditors.

## 9. Information policy

EMS publishes quarterly net sales figures, together with a commentary on the course of business and the outlook for the future. The half-year and annual financial statements are prepared in accordance with IFRS. EMS also issues ad-hoc reports on important events as and when they occur.

### Calendar of events of the EMS Group

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July 13, 2007:

First-Half Report 2007 (Media conference)

August 11, 2007:

Annual General Meeting 2007  
of EMS-CHEMIE HOLDING AG

October 2007:

Third-Quarter Report 2007

February 2008:

Annual Results 2007 (Media conference)

April 2008:

First-Quarter Report 2008

Further details regarding these dates can be found at [www.ems-group.com/ar/information](http://www.ems-group.com/ar/information).

Subscription to ad-hoc reports received by E-mail can be made at [www.ems-group.com/ar/contact](http://www.ems-group.com/ar/contact).

Information is available on the website:  
[www.ems-group.com](http://www.ems-group.com).

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## Consolidated Income Statement of the EMS Group

	Notes	2006 (CHF '000)	2005 (CHF '000)
<b>Continued activities:</b>			
Net sales revenue from goods and services		1 395 946	1 253 330
Inventory changes, semi-finished and finished goods		17 313	(3 181)
Capitalized costs and other operating income	1	36 832	28 182
<b>Operating income</b>		<b>1 450 091</b>	<b>1 278 331</b>
Material expenses	2	866 182	730 670
Personnel expenses	3	206 678	196 896
Depreciation and amortization	9, 24	51 145	53 893
Other operating expenses	4	79 257	80 468
<b>Operating expenses</b>		<b>1 203 262</b>	<b>1 061 927</b>
<b>NET OPERATING INCOME (EBIT)</b>		<b>246 829</b>	<b>216 404</b>
Income from equity-valuation of associated companies		6 677	1 563
Financial income	6	184 800	67 456
Financial expenses	7	73 203	58 080
<b>NET FINANCIAL INCOME</b>		<b>118 274</b>	<b>10 939</b>
<b>NET INCOME FROM CONTINUED ACTIVITIES, BEFORE TAXES</b>		<b>365 103</b>	<b>227 343</b>
Income taxes	8	57 436	45 467
<b>NET INCOME FROM CONTINUED ACTIVITIES</b>		<b>307 667</b>	<b>181 876</b>
<b>Discontinued activities:</b>			
Net income from discontinued activities, after taxes	25	0	843
<b>NET INCOME</b>		<b>307 667</b>	<b>182 719</b>
<b>Of which attributable to:</b>			
Shareholders of EMS-CHEMIE HOLDING AG		297 441	177 134
Minority interests	17	10 226	5 585
<b>Earnings per share in CHF from continued activities:</b>			
basic	28	12.99	7.27
diluted	28	12.65	7.27
<b>Earnings per share in CHF from discontinued activities:</b>			
basic	28	-	0.03
diluted	28	-	0.03

Notes to the Consolidated Financial Statements: see pages 35–54.

## Consolidated Balance Sheet of the EMS Group

EMS Group  
Consolidated Financial Statements  
Annual Report 2006 / 2007

	Notes	31.12.2006 (CHF '000)	31.12.2005 (CHF '000)
<b>NON-CURRENT ASSETS</b>		595 610	533 542
Intangible assets	9	6 622	7 641
Property, plant and equipment	9	485 376	477 840
Financial assets	9	99 714	47 440
Investments in associated companies	9	29 405	25 820
Other investments	9	244	1 139
Other non-current financial assets	9	70 065	20 481
Deferred income tax assets	8	3 898	621
<b>CURRENT ASSETS</b>		1 732 994	1 816 870
Inventories	10	226 131	196 739
Accounts receivable			
Trade accounts receivable	11	233 706	213 946
Income tax assets		94	201
Other receivables	12	67 701	58 398
Current financial assets	13	432 848	948 395
Cash and cash equivalents	14	772 514	399 191
<b>TOTAL ASSETS</b>		2 328 604	2 350 412
<b>EQUITY</b>		1 102 713	1 082 851
Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG		1 054 885	1 041 279
Share capital	15	251	251
Retained earnings and reserves		757 193	863 894
Net income		297 441	177 134
Equity, attributable to minority interests	17	47 828	41 572
<b>LIABILITIES</b>		1 225 891	1 267 561
Non-current liabilities		886 847	952 576
Bonds	18	652 082	734 730
Option component of convertible bonds		34 820	18 128
Other non-current liabilities	20	9 637	8 783
Deferred income tax liabilities	8	128 531	117 283
Provisions	21	61 777	73 652
Current liabilities		339 044	314 985
Bank loans	19	15 689	15 624
Trade accounts payable		112 101	95 947
Income tax liabilities		61 480	64 846
Provisions	21	17 315	16 877
Other current liabilities	22	132 459	121 691
<b>TOTAL EQUITY AND LIABILITIES</b>		2 328 604	2 350 412

Notes to the Consolidated Financial Statements: see pages 35 – 54.

## Consolidated Changes in Equity of the EMS Group

(CHF '000)	Notes	Share capital	Capital reserves (share premium)	Retained earnings	Treasury shares	Gains/ (losses) arising from IAS 39	Foreign exchange differences	Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG	Equity, attributable to minority interests	Equity
At 31.12.2003		261	0	1 379 612	0	73 636	(12 391)	1 441 118	34 960	1 476 078
Changes in fair value of financial instruments						(131 815)		(131 815)		(131 815)
Currency translation differences							(5 317)	(5 317)	(1 386)	(6 703)
Net income/(expense) recognized directly in equity		0	0	0	0	(131 815)	(5 317)	(137 132)	(1 386)	(138 518)
Net income recognized in income statement				183 426				183 426	6 384	189 810
Total recognized income and expense		0	0	183 426	0	(131 815)	(5 317)	46 294	4 998	51 292
Transactions with treasury shares			937		(213 508)			(212 571)		(212 571)
Redemption of share capital		(10)		(135 207)	135 217			0		0
Dividends paid				(193 943)				(193 943)	(2 658)	(196 601)
At 31.12.2004		251	937	1 233 888	(78 291)	(58 179)	(17 708)	1 080 898	37 300	1 118 198
Changes in fair value of financial instruments	16					179 682		179 682		179 682
Currency translation differences							11 741	11 741	2 216	13 957
Net income/(expense) recognized directly in equity		0	0	0	0	179 682	11 741	191 423	2 216	193 639
Net income recognized in income statement				177 134				177 134	5 585	182 719
Total recognized income and expense		0	0	177 134	0	179 682	11 741	368 557	7 801	376 358
Acquisition of minority interests	17							0	(1 044)	(1 044)
Transactions with treasury shares			1 156		(47 523)			(46 367)		(46 367)
Spin-off EMS-DOTTIKON	25			(264 322)				(264 322)		(264 322)
Dividends paid				(97 487)				(97 487)	(2 485)	(99 972)
At 31.12.2005		251	2 093	1 049 213	(125 814)	121 503	(5 967)	1 041 279	41 572	1 082 851
Changes in fair value of financial instruments	16					11 220		11 220		11 220
Currency translation differences							(5 405)	(5 405)	(859)	(6 264)
Net income/(expense) recognized directly in equity		0	0	0	0	11 220	(5 405)	5 815	(859)	4 956
Net income recognized in income statement				297 441				297 441	10 226	307 667
Total recognized income and expense		0	0	297 441	0	11 220	(5 405)	303 256	9 367	312 623
Transactions with treasury shares			83		(142 059)			(141 976)		(141 976)
Dividends paid				(147 674)				(147 674)	(3 111)	(150 785)
At 31.12.2006		251	2 176	1 198 980	(267 873)	132 723	(11 372)	1 054 885	47 828	1 102 713
Balance sheet equity ratio								2006 47.4%		2005 46.1%

Capital reserves are not eligible for distribution. Retained earnings include KCHF 50 (2005: KCHF 50) not eligible for distribution.

The proposal of the Board of Directors for the profit distribution of EMS-CHEMIE HOLDING AG, whose financial year closes on April 30, 2007, was communicated on February 9, 2007.

The change of income taxes recognized directly in equity amounts to KCHF 7 165 (2005: KCHF 13 595) on securities and financial investments, of which current income taxes KCHF 1 498 (2005: KCHF 13 595) and deferred income taxes KCHF 5 667 (2005: KCHF 0), as well as KCHF 7 (2005: KCHF 98) on sale of treasury shares.

For further information and data refer to page 3, "Spotlight on Share Performance".

# Consolidated Cash Flow Statement of the EMS Group

EMS Group  
Consolidated Financial Statements  
Annual Report 2006 / 2007

	Notes	2006 (CHF '000)	2005 (CHF '000)
Net income		307 667	182 719
Depreciation, amortization and impairment of intangible assets and property, plant and equipment	9, 24	51 145	56 840
(Profit)/loss from disposal of property, plant and equipment	1, 4	3 989	2 574
Increase/(decrease) of provisions	21	(167)	(1 733)
Increase/(decrease) of other non-current liabilities		230	(2 733)
(Income)/expenses from the equity-valuation of associated companies		(6 677)	(1 563)
Impairment securities	7	0	2 008
Impairment financial investments in current assets	7, 24	0	1 254
Value adjustments financial assets	9, 24	8	(8)
Unrealized currency translation differences on foreign exchange positions		6 137	5 341
Change assets and liabilities of post-employment benefits, net	9, 20	735	(1 942)
Net interest expense	6, 7	20 697	30 361
Dividends	6	(14 637)	(19 301)
Income from sale of current financial assets	6	(158 347)	(31 670)
Income from liquidation of other participations	6	(34)	0
Expenses for income taxes	8	57 436	45 686
<b>OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL</b>		<b>268 182</b>	<b>267 833</b>
Cash flow from changes in working capital excluding cash and cash equivalents		(13 885)	21 754
Taxes paid		(59 594)	(28 490)
Interest paid		(22 700)	(25 934)
Provisions used	21	(9 239)	(1 724)
<b>CASH FLOW FROM OPERATING ACTIVITIES A</b>		<b>162 764</b>	<b>233 439</b>
(Purchase) of intangible assets and property, plant and equipment	9	(64 329)	(49 431)
Disposal of intangible assets and property, plant and equipment	1, 4, 9	2 454	3 261
(Purchase) of financial assets	9	(50 863)	(288)
Disposal of financial assets	6, 9	1 184	1 940
(Purchase)/disposal of marketable securities/financial investments in current assets		692 288	133 491
Interest received		12 297	10 224
Dividends received		16 444	20 596
(Purchase)/disposal of fully consolidated companies and of discontinued activities	25	0	(12 090)
(Increase)/decrease of interest-bearing assets		(1 302)	(150)
<b>CASH FLOW FROM INVESTING ACTIVITIES B</b>		<b>608 173</b>	<b>107 553</b>
Dividends paid		(147 674)	(97 487)
Dividends paid to minorities	17	(3 111)	(2 485)
(Purchase) of treasury shares		(142 570)	(68 518)
Sale of treasury shares		594	22 151
Acquisition of minority interests	17	0	(1 044)
Repurchase of own bonds		(99 472)	(155 231)
Increase/(decrease) of interest-bearing liabilities		(5 342)	(32 277)
<b>CASH FLOW FROM FINANCING ACTIVITIES C</b>		<b>(397 575)</b>	<b>(334 891)</b>
<b>CHANGE IN CURRENCY TRANSLATION D</b>		<b>(39)</b>	<b>(4 697)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)</b>		<b>373 323</b>	<b>1 404</b>
Cash and cash equivalents at beginning of the year		399 191	397 787
Increase/(decrease) of cash and cash equivalents		373 323	1 404
Cash and cash equivalents at year-end	14	772 514	399 191

Notes to the Consolidated Financial Statements: see pages 35 – 54.

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

### Consolidated accounting principles

#### General information on the consolidated financial statements

The consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows of the EMS Group. The consolidation is based on individual financial statements of subsidiaries prepared according to uniform Group accounting principles and in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). They also comply with Swiss law.

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

#### Changes to the consolidated accounting principles

The IASB published a series of new and revised standards and interpretations, which took effect in 2006 and were implemented by the EMS Group on January 1, 2006. This has no material effect on the consolidated financial statements of the EMS Group.

The introduction of IAS 19 (revised) "Employee Benefits" resulted in additional disclosures on pension plans; EMS Group has opted for the time being not to adopt the accounting option to recognize all actuarial gains and losses directly in retained earnings.

### Consistency

The principles of valuation and consolidation remain unchanged from the previous year, with the exception of the changes described to the left.

EMS-DOTTIKON was floated on the stock market as an independent company on March 31, 2005, and is treated as a discontinued operation in the 2005 financial statements. Therefore, in the income statement for 2005 the net income from discontinued operations is disclosed in a separate line for three months. Since the spin-off was conducted in the form of a transfer of subscription rights to the existing shareholders of EMS-CHEMIE HOLDING AG, it did not generate any cash proceeds for the EMS Group. The sole effect of the discontinued operations on the cash flow statement 2005 is therefore the outflow of EMS-DOTTIKON's holdings of cash and cash equivalents, which is presented as a net cash outflow from investment activities. Details on the figures are provided in note 25.

#### Possible implications of new or revised standards issued but not yet effective

The following new and revised standards and interpretations, as they are relevant for the EMS Group, were agreed by the IASB prior to the balance sheet date of December 31, 2006 but do not come into effect until a later date and were not applied early in the present consolidated financial statements. Their implications for the consolidated financial statements of the EMS Group have not yet been analyzed systematically, with the result that the expected implications – as stated at the foot of the table – represent only an initial assessment on the part of management.



Standard/Interpretation		Entry into force	Planned application by the EMS Group
IAS 1 (revised) – Presentation of Financial Statements: Explanatory notes on equity	**	January 1, 2007	Financial year 2007
IFRS 7 – Financial Instruments: Disclosure	**	January 1, 2007	Financial year 2007
IFRS 8 – Operating Segments: Disclosure	***	January 1, 2009	Financial year 2009
IFRIC 9 – Reassessment of Embedded Derivatives	*	June 1, 2006	Financial year 2007
IFRIC 10 – Interim Financial Reporting and Impairment	*	November 1, 2006	Financial year 2007

- \* There are not expected to be any significant implications for the consolidated financial statements of the EMS Group.  
 \*\* The primary expectation is that there will be additional disclosures in the consolidated financial statements of the EMS Group.  
 \*\*\* The effects on the consolidated financial statements of the EMS Group cannot yet be determined with sufficient certainty.

### Scope of consolidation

The scope of consolidation includes all companies in and outside Switzerland which are controlled – directly or indirectly – by EMS-CHEMIE HOLDING AG, holding more than 50% of the voting rights, or by contracts or other agreements (see note 32 “List of subsidiaries and minority holdings”). Joint ventures where the parties have joint control are included using the equity method of accounting. This method is also applied for the associated companies, which are not directly or indirectly controlled by EMS-CHEMIE HOLDING AG (shareholding normally between 20% and 50% of voting rights). Shares in other companies (less than 20% of voting rights) are valued at their market value (fair value).

### Method of consolidation

The financial statements of majority-owned companies are fully consolidated. Assets and liabilities, income and expenses are incorporated in full. Capital consolidation is effected using the Anglo-Saxon purchase method. Intercompany transactions and relations have been eliminated in the course of consolidation. Unrealized profits from intercompany deliveries are eliminated in the income statement. All assets and liabilities of acquired companies are

valued according to the accounting principles of the EMS Group at the time of acquisition. Any positive difference between the resulting shareholders' equity and the cost of acquisition is capitalized as goodwill. Goodwill is subject to an annual impairment test. Results for acquired companies are included in consolidation as from the date on which control was transferred. In case of disposal of companies the deconsolidation is effected through the income statement from the date control is relinquished, whereby the companies' results are included in the consolidation up to such date.

### Balance sheet date

The balance sheet date of subsidiaries is December 31. The balance sheet date of EMS-CHEMIE HOLDING AG is April 30. In accordance with uniform Group accounting principles an interim closing is prepared for the holding company as of December 31.

### Valuation principles

The consolidated financial statements are based on historical costs except for securities, other investments and derivative financial instruments, which are valued at fair value, as well as bonds, which are measured at amortized cost.

### Intangible assets

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Next to patents, trade marks and software, this item consists of goodwill acquired in acquisitions since January 1, 1995. Goodwill represents the difference between consideration paid and the fair value of the net assets and contingent liabilities acquired. Until December 31, 2004, amortization periods of goodwill were determined individually, based on useful lives. The maximum useful life applied was 20 years. In conformity with IFRS 3, goodwill is no longer amortized from January 1, 2005, and is instead subject to an annual impairment test. All goodwill originating in prior years had already been fully amortized by January 1, 2005 and the cumulative amortization was accordingly offset against historical cost.

Other intangible assets are measured at cost less amortization and impairments. Amortization of patents, trade marks and software is calculated using the straight-line method based on their limited useful economic lives, generally over 3 to 12 years.

### Property, plant and equipment

---

Property, plant and equipment are shown at purchase price or manufacturing cost less depreciation and impairments. Interest expenses are not capitalized. Assets are depreciated using the straight-line method over their estimated useful lives. Useful lives are estimated in terms of the asset's physical life expectancy, corporate policy on asset renewals and technological and commercial obsolescence. The value of the capitalized property, plant and equipment is periodically reviewed and an impairment loss is recorded when the carrying amount exceeds the recoverable amount.

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

Depreciation periods are as follows:

- Land: normally not depreciated
- Plant under construction:  
normally not depreciated
- Buildings: 25 – 50 years
- Technical plant and machinery: 7 – 25 years
- Other property, plant and equipment: 5 – 15 years

### Leases

---

Assets held under leasing agreements which may be considered as an asset purchase in economic terms (finance leases) are capitalized as property, plant and equipment at the estimated present value of the underlying lease payments and depreciated over their useful lives or the leasing period if shorter. Leasing commitments are shown under other current or non-current liabilities as appropriate. Financing costs are charged to the income statement over the leasing period in such a manner that the periodic costs are correct.

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

### Financial assets within non-current assets

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Shares in associated companies are included using the equity method.

Other investments are classified as "available for sale" and the valuation is the same as described under "securities".

### Inventories

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Inventories used for production are valued at their historical purchase or production cost or at their net realizable value, whichever is lower. Inventories are valued using the "fifo" (first-in, first-out) method. Besides individual costs, the cost of production also includes a proportionate allocation of manufacturing overheads.

### Accounts receivable

---

This item is measured on the basis of the original invoiced amount less allowances for doubtful accounts. Such allowances are formed if there are objective indications that outstanding amounts will

not or only partially be collected. The allowance represents the difference between the carrying amount of the receivable and the recoverable amount.

#### Securities

---

Securities include marketable securities traded on stock exchanges and are classified as available-for-sale. Initial measurement of all security transactions is done at the date of fulfillment of the contract (settlement date accounting) at cost value including transaction costs. Subsequent measurement is done at market value (fair value) with changes recorded in equity and only transferred to the income statement at the moment of the sale or in case of an impairment. Impairment is assumed when there is a significant or prolonged decline in the market value below its cost. According to the guidelines of the EMS Group a significant or prolonged decrease exists if the market value (fair value) of securities is below its cost for a period of nine months or by more than 20%. If the loss in market value (fair value) is less than 20% or lasts less than nine months, management decides whether the loss has to be considered permanent.

#### Financial assets within current assets

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The shareholding in Lonza Group AG is stated under financial assets within current assets. The valuation is the same as described under "securities".

#### Cash and cash equivalents

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Cash and cash equivalents include cash on hand, bank account balances and short or medium-term deposits maturing within three months. Cash and cash equivalents are valued at their nominal value. This definition is also used for the cash flow statement.

#### Bonds and non-current bank loans

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Debenture bonds and non-current bank loans are recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, debenture bonds and non-current bank loans are stated at amortized cost. Convertible bonds are split into a liability component and an option component at date of issue and are shown separately in the balance sheet. The fair value of the liability component is determined on the basis of the

present value of the principal plus the present value of the interest payable over the contractual period using the effective interest rate at inception. At date of issue the value of the option component results by deduction of the liability component from the proceeds of the bond issue. With conventional convertible bonds, the holder acquires the right to convert into shares of the issuer. The option therefore constitutes an equity component. In the case of the convertible bonds issued by the EMS Group, there is an option to convert into registered shares of Lonza Group AG or registered shares of EMS-CHEMIE HOLDING AG. The option component is therefore treated as a debt instrument, and is measured at fair value in subsequent years and adjusted through the income statement.

Bonds and non-current bank loans are classified as current if they are due to be repaid within twelve months after the balance sheet closing date, even if an agreement has been concluded on the long-term refinancing or rescheduling of payment commitments after the balance sheet closing date but prior to the approval of the financial results for publication.

#### Liabilities and deferred income

---

This item includes current and non-current debts, valued at the amount of repayment, and deferred income.

#### Provisions

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Provisions are set up for legal or other liabilities if these liabilities resulting from a past event and existing at balance sheet date will most probably bring about a cash outflow and if the amounts can be reliably estimated.

#### Employee benefits

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All subsidiaries in Switzerland have their own, legally independent pension plans that are independently managed. They are financed through contributions from employers and employees. Present and former employees (or their surviving dependants) will receive benefits upon reaching the age limit and/or in the event of incapacity or death. For the purposes of the consolidated financial statements, future pension obligations are calculated on the basis of actuarial methods complying with IFRS. In the case of defined benefit obligations, the

present value of the projected benefit obligation is assessed using the projected unit credit method on the basis of completed and expected years of service, the expected pay trend and the adjustment of pensions. Costs for this provision ("expense recognized in the income statement") are calculated annually and carried to the income statement. Changes in actuarial assumptions are recognized in the income statement on a straight-line basis over the average remaining period of service of employees when they exceed the limit of 10% of the plan assets or 10% of the plan obligations. Employees of subsidiaries abroad are insured by governmental institutions or independent defined contribution pension plans.

#### Derivative financial instruments

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Initial measurement of all derivative financial instruments is done at the date of transaction (trade date accounting) at cost value including transaction costs. Subsequent measurement is done at market value (fair value) within accrued income and deferred income respectively. Changes in fair value are shown within the financial income.

#### Net sales revenue

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Net sales revenue includes the invoiced amounts for supplied goods and services less diminished proceeds.

#### Research and development costs

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Research and development costs are charged to the income statement for the year in which they incur under the following headings: wages and salaries, material expenses and amortization on research and development assets. Research and development assets used over a long period of time are classified under "technical plant and machinery" and are amortized over the estimated period of economic use.

Development costs are capitalized only and insofar as it can be assumed with a high degree of probability that sufficient future income will be generated to cover the costs arising in connection with the development of the product or process.

#### Impairment

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The carrying amounts of non-current assets not valued at fair value are reviewed at balance sheet date. If there are any indications of permanent impairment, the recoverable amount is determined. The recoverable amount corresponds to the higher of the net selling price or the value in use. In cases where the carrying amount is higher than the recoverable amount, the difference is booked in the income statement.

#### Foreign currencies

The financial statements of the individual Group companies are presented in the currency of the primary economic environment in which the respective company operates (functional currency). The consolidated financial statements are prepared in Swiss francs, the Group's reporting currency. Financial statements in foreign currencies are translated as follows: current assets, non-current assets and liabilities at year-end exchange rates. All items in the income statement and the net income are translated using the average exchange rate for the year. These exchange rate differences are carried to equity without affecting net income (translation adjustment).

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

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

The most important exchange rates are:

	Unit	Average exchange rates		Year-end exchange rates		
		2006	2005	2006	2005	
Euro	EUR	1	1.573	1.548	1.606	1.557
US Dollar	USD	1	1.253	1.246	1.220	1.310
Japanese Yen	JPY	100	1.077	1.135	1.027	1.117
Taiwan Dollar	TWD	100	3.852	3.871	3.740	3.990
Chinese Renminbi	CNY	100	15.72	15.21	15.60	16.20

### Income taxes

Provisions for deferred income taxes are recognized to reflect the tax impact on differences in the valuation of assets and liabilities for Group consolidation purposes and for local taxation purposes. These provisions are continuously adjusted to take account of any changes to local fiscal law. Provisions for deferred taxation are set up using the balance sheet liability method, under which deferred tax assets or liabilities are set up for all temporary differences between the tax values and the values entered in the consolidated Group accounts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### Earnings per share

Earnings per share are based on the consolidated net income attributable to the shareholders of EMS-CHEMIE HOLDING AG, which is divided by the weighted average number of shares issued. The diluted earnings per share figure additionally includes all the shares that could potentially be issued following the exercising of option or conversion rights, for instance.

Earnings per share are calculated on the basis of continuing operations as well as discontinued operations.

### Segment reporting

Segment reports are presented primarily by business area and secondarily by geographical region. The segmentation is prepared to the level of EBIT. A splitting of financial income and expenses and of taxes is not useful because those functions are executed on Group level. All assets and liabilities are contributed to the business area or geographical region either direct or via useful rate assessment. The positions not segmented are shown separately. For the business area assignment of Group companies, please refer to note 32 "List of subsidiaries and minority holdings".

### Financial risk management

#### Foreign currency risks

The EMS Group uses derivative financial instruments in the usual course of business to cover the risks. Different risk positions, composed of assets and liabilities and future commitments, are judged and managed by the treasury for the whole Group. Additionally, the liquidity required for the day-to-day operations has to be available at all times. The hedging policy of the EMS Group is set out in writing and is supervised. The results of the hedge program are continuously reported to Senior Management and to the Board of Directors. The treasury management is authorized to entirely or partially hedge exposures within the framework of the defined currency policy. The EMS Group hedges positions if the costs in relation to the risks are justified.

The EMS Group mostly uses forward currency and option contracts to hedge the risk of value losses in cash flow terms resulting from balance sheet and income statement items held in foreign currencies.

#### Credit risks

Credit risks arise from the possibility that the counterparty to a transaction may be unable or unwilling to meet their obligations, causing a financial loss to the EMS Group. Fixed-term deposits and derivative

financial instruments are only entered into with counterparties that have a high credit standing. Trade receivables are subject to a policy of active risk management focusing on the assessment of country risk, credit availability, ongoing evaluation of credit standing and account monitoring procedures. There are no significant concentrations within counterparty credit risks. Within trade receivables, this is due to the EMS Group's large number of customers and their wide geographical spread, which are continuously verified. Country risk limits and exposures are continuously verified. The exposure of other financial assets to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counterparties, ongoing reviews of credit ratings, and limiting individual aggregate credit exposure accordingly.

#### Risks of interest rate changes

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

#### Market risk of financial assets

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

#### Hedge accounting

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For the hedging of foreign currency risks and risks of interest rate changes no hedge accounting is used.

#### Fair values

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The carrying amounts for securities and financial assets stated at fair value are calculated at stock-exchange prices applicable on the balance sheet date. Values for derivative financial instruments are based on replacement values or recognized valuation models.

#### Significant estimates and assumptions made by management

##### Significant measurement and accounting methods

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Accounting procedures require management to make certain estimates and assumptions that may have a material effect on the consolidated financial statements if the actual results differ from these estimates and assumptions. This applies to the following areas in particular.

##### Impairment of non-current assets

---

The carrying amounts of property, plant and equipment and intangible assets are subject to an annual impairment test. To ascertain whether impairment has occurred, estimates are made of the expected future cash flows arising from the use and possible disposal of such assets. Significant assumptions are made in relation to such calculations, including sales figures, margins and discounting rates. It is also possible for useful lives to be reduced, the intended use of property, plant and equipment to change, production sites to be relocated or closed, and production plants to generate lower-than-expected sales in the medium term. Accordingly, the actual cash flows may differ from the estimated discounted future cash flows. The carrying amounts for property, plant and equipment and intangible assets are shown in note 9.

##### Provisions for litigation risks and other provisions

---

In the course of their ordinary business operations, Group companies may be involved in legal proceedings. Provisions for litigation risks and other provisions are measured using available information on the basis of the realistically expected net cash outflow, if considered necessary. Depending on the



outcome of such proceedings, claims that are not covered or only partially covered by provisions or insurance benefits may arise against the Group. Other provisions primarily cover warranty claims arising from the sale of goods or services and are subject to uncertainty in terms of scope, timing, and in some cases the likelihood of occurrence. Future reporting periods may therefore be affected by changes in the estimates of expected or actual cash outflows. The carrying amounts for provisions are shown in note 21.

#### Securities and financial assets within current assets

---

The EMS Group has classified these items as available-for-sale, which means that fluctuations in their fair value are recognized in equity until the date of sale, provided there is no permanent impairment. The assessment as to whether impairment has occurred depends on the duration and extent of the decline based on clear criteria. However, it also requires that management makes estimates with regard to future economic developments, which may differ from the views of the financial markets, the consequence of which may be corresponding gains or losses on sale. The carrying amounts for securities and financial assets within current assets are shown in note 13.

#### Employee benefits

---

The EMS Group operates various retirement plans on behalf of its employees. To determine liabilities and expenses, the plan must first be classified in accordance with the principle of substance over form, i.e. whether it is a defined contribution or defined benefit pension plan. In the case of defined benefit plans, statistical assumptions are made in order to estimate future developments. They include assumptions and estimates concerning an appropriate discount rate, the expected income from the contracting out of plans in individual countries, and assumptions with regard to growth rates for pay. In their actuarial calculations to determine the retirement benefit liabilities, the actuaries also use statistical information such as mortality tables and the

likelihood of departure. When such parameters alter due to changes in the economic situation or different market conditions, subsequent results may differ significantly from the actuarial opinions and calculations. Such differences can have significant implications for the cost of, and income from, employee benefit plans in the medium term. The carrying amounts of reported employee retirement assets and liabilities are shown in notes 9 and 20.

#### Taxes

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Measurement of current direct and indirect tax liabilities is subject to interpretation of the tax legislation in the countries concerned. The accuracy of tax declarations and appropriateness of liabilities are judged in the context of final assessments or inspections by the tax authorities. This can result in significant adjustments being made in relation to tax expenses. Furthermore, the judgment as to whether tax-loss carry forwards can be capitalized requires critical assessment of their usability in terms of netting with future profits, which are dependent on numerous imponderables.



## Segment Information

### Breakdown by business area (Primary segment)

(CHF '000)

	Net sales with other segments		Net sales with third parties		Total net sales		Depreciation, amortization and impairment in intangible assets and property, plant and equipment <sup>1)</sup>		Net operating income (EBIT)	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
PERFORMANCE POLYMERS	174	233	1 265 662	1 117 741	1 265 836	1 117 974	40 430	43 079	214 129	179 228
FINE CHEMICALS/ENGINEERING	0	0	130 284	135 589	130 284	135 589	10 715	10 814	32 700	37 176
Subtotal segments	174	233	1 395 946	1 253 330	1 396 120	1 253 563	51 145	53 893	246 829	216 404
– Internal net sales	(174)	(233)			(174)	(233)				
Total EMS Group	0	0	1 395 946	1 253 330	1 395 946	1 253 330	51 145	53 893	246 829	216 404

For a description of the business areas see pages 8 – 10 (“General Information on the Financial Year”).

	Segment assets <sup>2)</sup>		Segment liabilities <sup>3)</sup>		Investments in intangible assets and property, plant and equipment		Income from equity-valuation of associated companies		Investments in associated companies	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
PERFORMANCE POLYMERS	932 567	860 541	418 798	383 403	63 016	39 791	6 677	1 563	29 405	25 820
FINE CHEMICALS/ENGINEERING	111 270	116 465	104 502	115 676	1 313	8 966	0	0	0	0
Subtotal segments	1 043 837	977 006	523 300	499 079	64 329	48 757	6 677	1 563	29 405	25 820
Non-segment assets/liabilities	1 284 767	1 373 406	702 591	768 482						
Total EMS Group	2 328 604	2 350 412	1 225 891	1 267 561	64 329	48 757	6 677	1 563	29 405	25 820

### Breakdown by geographical region (Secondary segment)

(CHF '000)

	Total net sales revenue (customers)		Total net sales revenue (production)		Net operating income (EBIT)		Segment assets <sup>2)</sup>		Investments in intangible assets and property, plant and equipment	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Switzerland	66 627	55 717	832 339	747 623	170 745	169 842	660 069	620 399	51 125	30 524
European Union (EU)	859 941	797 481	328 158	302 089	45 317	20 358	179 014	168 672	6 485	9 633
North America	126 693	113 514	66 120	69 626	4 314	7 749	82 017	77 468	4 630	1 937
Asia	284 739	231 440	169 329	133 992	26 453	18 455	122 737	110 467	2 089	6 663
Others	57 946	55 178	0	0	0	0	0	0	0	0
Subtotal segments	1 395 946	1 253 330	1 395 946	1 253 330	246 829	216 404	1 043 837	977 006	64 329	48 757
Non-segment assets							1 284 767	1 373 406		
Total EMS Group	1 395 946	1 253 330	1 395 946	1 253 330	246 829	216 404	2 328 604	2 350 412	64 329	48 757

Invoicing and cost attribution between segments are subject to the same conditions as with third parties.

<sup>1)</sup> See note 9.

<sup>2)</sup> Segmented assets: Assets without cash and cash equivalents, current financial assets, fixed deposits in other non-current financial assets and investments in associated companies.

<sup>3)</sup> Segmented liabilities: Liabilities without current and non-current bank loans, bonds and option component of convertible bonds.

## Consolidated Income Statement

EMS Group  
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Notes	2006 (CHF '000)	2005 (CHF '000)
1	Capitalized costs and other operating income	
	Capitalized costs	13 972
	Other operating income	20 787
	Real estate income	1 946
	Income from disposal of property, plant and equipment	127
	Total capitalized costs and other operating income	36 832
2	Material expenses	
	Material and warehouse expenses	832 394
	Subcontractor salaries	5 675
	Energy expenses	28 113
	Total material expenses	866 182
3	Personnel expenses	
	Wages and salaries	169 627
	Expenses for defined benefit plans	11 963
	Legal/contractual social insurance	25 088
	Total personnel expenses	206 678
	Employee benefits	
	The following figures give an overview of the Swiss pension plans:	
	Present value of funded obligations	(448 396)
	Fair value of plan assets	423 887
	Recognized liability for defined benefit obligations	(24 509)
	Liability for long-service leave	0
	Cash-settled share-based payment liability	0
	Total employee benefits	(24 509)
	Unrecognizable amount	(10 292)
	Actuarial losses, not accounted for	48 031
	Total recognized net assets in the Group balance sheet for independent defined benefit plans	13 230
	There are no unfunded obligations. The Group makes contributions to a contributory defined benefit plan that provides pensions for employees upon retirement, disability and death. The plan entitles a retired employee to receive an annual payment equal to 6.8% (2005: 6.8%) of the retirement assets. Disability and death pensions are defined as fixed ratios of the salary insured.	

Notes	2006 (CHF '000)	2005 (CHF '000)
The balance sheet shows the following		
Surplus recognized in financial assets as pension assets (see note 9)	18 499	19 484
Deficit recognized in other non-current liabilities as liabilities from employee benefits (see note 20)	(5 269)	(5 519)
Total recognized net assets in the Group balance sheet	13 230	13 965
Plan assets consist of the following		
Loans to the employer	8 011	6 000
Liquid assets	104 034	88 956
Bonds	155 044	123 600
Real estate	21 180	23 600
Equities	135 618	160 200
Total plan assets	423 887	402 356
Movement in the liability for defined benefit obligations		
Liability for defined benefit obligations at 1. 1.	429 733	403 030
Benefits paid by the plan	(7 892)	(8 283)
Current service costs and interest (see below)	28 746	27 218
Net curtailments	(11)	0
Settlements	(7 571)	(5 550)
Actuarial losses (see next page)	5 381	13 318
Liability for defined benefit obligations at 31. 12.	448 396	429 733
Movement in plan assets		
Fair value of plan assets at 1. 1.	402 356	341 222
Contributions paid into the plan	18 081	16 469
Benefits paid by the plan	(7 892)	(8 283)
Expected return on plan assets	20 118	17 061
Net curtailments	(1 118)	0
Settlements	(7 571)	(5 550)
Actuarial gains/(losses) (see next page)	(87)	41 437
Fair value of plan assets at 31. 12.	423 887	402 356
Expense recognized in the income statement		
Current service costs	18 841	15 580
Interest on obligation	9 905	11 638
Expected return on plan assets	(20 118)	(17 061)
Recognized actuarial gains and losses (see next page)	4 946	3 643
Effect of curtailments	1 117	0
Effect of the limit in paragraph 58 (b)	4 125	(1 841)
Employee's contributions	(6 853)	(6 782)
ERIS (Expense Recognized in the Income Statement)	11 963	5 177
The expense is recognized in personnel expenses.		

Notes	2006 (CHF '000)	2005 (CHF '000)
Change of recognized net assets		
At 1.1.	13 965	9 455
ERIS (Expense Recognized in the Income Statement)	(11 963)	(5 177)
Employer's contribution	11 228	9 687
At 31.12.	13 230	13 965
Actual return on plan assets	20 031	58 498
Not recognized actuarial gains and losses		
Cumulative amount at 1.1.	47 509	79 271
Actuarial gains and losses of the period	5 468	(28 119)
Amortization during the period	(4 946)	(3 643)
Cumulative amount at 31.12.	48 031	47 509
Actuarial assumptions		
Principal actuarial assumptions at the reporting date (expressed as weighted averages):		
Discount rate at 31.12.	2.5%	2.5%
Expected return on plan assets at 1.1.	5.0%	5.0%
Future salary increases	1.5%	1.5%
Future pension increases	0.5%	0.5%
The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments. In Switzerland health care costs are not paid to employees.		
Historical information		
Present value of the defined benefit obligation	448 396	429 733
Fair value of plan assets	(423 887)	(402 356)
Deficit in the plan	24 509	27 377
Experience gains/(losses) arising on plan liabilities	(5 381)	0
Experience gains/(losses) arising on plan assets	(87)	41 437
The Group expects to pay KCHF 8 697 in contributions to defined benefit plans in 2007.		
4 Other operating expenses		
Rents	8 193	7 872
Repairs and maintenance	20 720	19 161
Insurance, duties, fees	7 204	7 813
Administration, promotion	28 450	27 870
Losses on disposal of property, plant and equipment	4 116	3 714
Other operating expenses	10 574	14 038
Total other operating expenses	79 257	80 468
5 Research and development		
Expenditures for research and development amount to	50 005	46 110

Notes	2006 (CHF '000)	2005 (CHF '000)
6	Financial income	
	Interest from related parties and associated companies	0
	Other interest income	11 782
	Dividends on securities in working capital	14 630
	Dividends from other companies	7
	Income from sale of current financial assets	158 347
	Income from liquidation of other participations	34
	Changes in fair value on derivative financial instruments, net	0
	<b>Total financial income</b>	<b>184 800</b>
7	Financial expenses	
	Interest to related parties and associated companies	94
	Other interest	24 136
	Interest expense on amortized liability component of convertible bonds	8 249
	Impairment securities	0
	Impairment financial investments in current assets	0
	Changes in fair value of derivative financial instruments, net	29 395
	Loss on repurchase own bonds	1 260
	Foreign exchange losses, net	7 676
	Bank charges and commissions	2 393
	<b>Total financial expenses</b>	<b>73 203</b>
	In 2005 an impairment loss was recognized in the income statement on securities and financial investments as the decline in fair values is classified as permanent according to the impairment policy of the EMS Group.	
8	Income taxes	
	Current income taxes	54 799
	Deferred income taxes	2 637
	<b>Total income taxes</b>	<b>57 436</b>
	The ultimate holding company is incorporated in Switzerland. The subsidiaries operate in different countries with different tax laws and tax rates. The effective income tax expenses differed from the expected income tax expenses as follows:	
	Breakdown of the income tax expenses	
	Net income before income taxes	365 103
	Expected income tax rate	22.1%
	Expected income taxes	80 863
	Use of tax losses carried forward not capitalized	(510)
	Change in deferred tax assets not having been set up	(1 416)
	Tax exemption / Expenses not being deductible for tax purposes	(13 404)
	Taxes from previous years and tax holidays	(6 816)
	Impact of changed deferred income tax rates	(951)
	Other	(330)
	<b>Effective income taxes</b>	<b>57 436</b>
	<b>Effective income tax rate</b>	<b>15.7%</b>
		20.0%

Notes	2006 (CHF '000)		2005 (CHF '000)	
	Deferred income tax assets	Deferred income tax liabilities	Deferred income tax assets	Deferred income tax liabilities
Deferred income taxes: Change in recognized assets/liabilities				
At 1.1.	621	117 283	238	174 732
Change in scope of consolidation	0	0	0	(46 174)
Increase via income statement	3 466	7 029	353	4 838
Decrease via income statement	(1 62)	(1 088)	0	(16 515)
Income taxes recognized directly in equity	0	5 667	0	0
Translation differences	(27)	(360)	30	402
At 31.12.	3 898	128 531	621	117 283
Note to the deferred income tax liabilities				
Calculation according to the "balance sheet liability method":				
Deferred income taxes on non-current assets	108 012		99 914	
Deferred income taxes on current assets	18 942		15 924	
Deferred income taxes on liabilities	1 577		1 445	
Total deferred income tax liabilities	128 531		117 283	
Tax loss carryforwards				
	Tax loss carryforwards	Tax effect	Tax loss carryforwards	Tax effect
Total tax loss carryforwards not considered in the balance sheet	26 857	9 774	30 412	11 069
Of which to be carried forward for up to:				
1 year	0	0	0	0
2 years	0	0	0	0
3 years	4	1	0	0
4 years	90	25	4	1
5 years	510	143	84	24
More than 5 years	26 253	9 605	30 324	11 044

## Consolidated Balance Sheet as at December 31

### Notes

#### 9 Intangible assets, property, plant and equipment, financial assets

##### I. Intangible assets

(CHF '000)	Goodwill	Patents, trade marks	Others, incl. advances	Total
At 1.1.2005				
Cost	22 090	9 723	18 716	50 529
Accumulated amortization and impairment	(22 090)	(5 999)	(11 898)	(39 987)
Net book value	0	3 724	6 818	10 542
2005				
At 1.1.	0	3 724	6 818	10 542
Change in scope of consolidation	0	0	(936)	(936)
Additions	0	14	680	694
Disposals	0	0	(419)	(419)
Amortization	0	(1 201)	(2 181)	(3 382)
Impairment	0	(1 540)	(619)	(2 159)
Reclassifications	0	1 800	1 464	3 264
Translation differences	0	7	30	37
At 31.12.	0	2 804	4 837	7 641
Cost	0	11 045	15 585	26 630
Accumulated amortization and impairment	0	(8 241)	(10 748)	(18 989)
Net book value	0	2 804	4 837	7 641
2006				
At 1.1.	0	2 804	4 837	7 641
Additions	0	92	1 482	1 574
Disposals	0	0	(395)	(395)
Amortization	0	(1 341)	(1 842)	(3 183)
Impairment	0	(1 600)	0	(1 600)
Reclassifications	0	1 998	522	2 520
Translation differences	0	31	34	65
At 31.12.	0	1 984	4 638	6 622
Cost	0	13 183	15 881	29 064
Accumulated amortization and impairment	0	(11 199)	(11 243)	(22 442)
Net book value	0	1 984	4 638	6 622

The other intangible assets mainly contain capitalized software usage rights.

The cost of fully amortized goodwill was offset with the accumulated amortization and impairment at 1.1.2005.



Notes

II. Property, plant and equipment

(CHF '000)	Land incl. development cost	Buildings	Technical plant, machinery, R&D plants	Furniture, EDP equipment, vehicles	Plant under construction and payments in advance	Total
<b>At 1. 1. 2005</b>						
Cost	28 542	322 269	976 173	65 881	36 604	1 429 469
Accumulated depreciation and impairment	(528)	(160 023)	(529 495)	(42 338)	(420)	(732 804)
Net book value	28 014	162 246	446 678	23 543	36 184	696 665
<b>2005</b>						
At 1. 1.	28 014	162 246	446 678	23 543	36 184	696 665
Change in scope of consolidation	(8 884)	(37 955)	(158 723)	(3 559)	(4 941)	(214 062)
Additions	0	963	5 375	2 780	39 619	48 737
Disposals	(1 534)	(608)	(1 921)	(1 353)	0	(5 416)
Depreciation	(755)	(5 794)	(35 267)	(5 107)	0	(46 923)
Impairment	0	(2 760)	(1 616)	0	0	(4 376)
Reclassifications	84	3 750	40 875	3 258	(51 231)	(3 264)
Translation differences	459	1 947	3 195	373	505	6 479
At 31.12.	17 384	121 789	298 596	19 935	20 136	477 840
Cost	18 752	264 853	736 996	55 294	20 560	1 096 455
Accumulated depreciation and impairment	(1 368)	(143 064)	(438 400)	(35 359)	(424)	(618 615)
Net book value	17 384	121 789	298 596	19 935	20 136	477 840
<b>2006</b>						
At 1. 1.	17 384	121 789	298 596	19 935	20 136	477 840
Additions	0	1 189	5 155	2 209	54 202	62 755
Disposals	(428)	(340)	(3 205)	(280)	(1 795)	(6 048)
Depreciation	(39)	(8 203)	(33 692)	(4 428)	0	(46 362)
Reclassifications	0	5 617	27 341	2 689	(36 167)	(520)
Translation differences	(8)	(421)	(1 811)	19	(68)	(2 289)
At 31.12.	16 909	119 631	292 384	20 144	36 308	485 376
Cost	18 282	270 582	755 424	56 006	36 745	1 137 039
Accumulated depreciation and impairment	(1 373)	(150 951)	(463 040)	(35 862)	(437)	(651 663)
Net book value	16 909	119 631	292 384	20 144	36 308	485 376

Fire insurance value is KCHF 1 382 693 (2005: KCHF 1 428 978).  
Property, plant and equipment are insured at replacement values.

Due to a systematic review and check of usability of manufacturing line in 2005, the following impairments were booked on assets used in the manufacturing process:

Year	Amount	Category	Segment
2005:	KCHF 619	Other intangible assets	Performance Polymers
	KCHF 2 760	Buildings	Performance Polymers
	KCHF 1 616	Technical plant, machinery	Performance Polymers

Due to a review of production strategy, the book values were impaired as follows:

2006:	KCHF 1 600	Patents, trade marks	Fine Chemicals/Engineering
2005:	KCHF 1 540	Patents, trade marks	Fine Chemicals/Engineering

Notes

III. Financial assets

(CHF '000)	Investments in associated companies			Other investments	Other non-current financial assets		Total
	Investments	Goodwill	Total		Pension assets IAS 19 (rev.)	Other non-current financial assets	
<b>At 1.1. 2005</b>							
Cost/Fair value	23 064	3 430	26 494	1 140	37 045	34 529	71 574
Accumulated depreciation/ amortization and impairment	0	(3 430)	(3 430)	(37)	0	(29 968)	(29 968)
Net book value	23 064	0	23 064	1 103	37 045	4 561	41 606
<b>2005</b>							
At 1.1.	23 064	0	23 064	1 103	37 045	4 561	41 606
Change in scope of consolidation	0	0	0	0	(21 476)	(1 897)	(23 373)
Additions/Increase	1 662	0	1 662	0	3 915	288	4 203
Disposals/Decrease	(1 431)	0	(1 431)	(1)	0	(1 939)	(1 939)
Depreciation/Amortization	0	0	0	38	0	(30)	(30)
Translation differences	2 525	0	2 525	(1)	0	14	14
At 31.12.	25 820	0	25 820	1 139	19 484	997	20 481
Cost/Fair value	25 820	0	25 820	1 139	19 484	30 285	49 769
Accumulated depreciation/ amortization and impairment	0	0	0	0	0	(29 288)	(29 288)
Net book value	25 820	0	25 820	1 139	19 484	997	20 481
<b>2006</b>							
At 1.1.	25 820	0	25 820	1 139	19 484	997	20 481
Additions/Increase	4 870	0	4 870	0	0	50 863	50 863
Disposals/Decrease	0	0	0	(890)	(985)	(260)	(1 245)
Depreciation/Amortization	0	0	0	0	0	(8)	(8)
Translation differences	(1 285)	0	(1 285)	(5)	0	(26)	(26)
At 31.12.	29 405	0	29 405	244	18 499	51 566	70 065
Cost/Fair value	29 405	0	29 405	244	18 499	80 418	98 917
Accumulated depreciation/ amortization and impairment	0	0	0	0	0	(28 852)	(28 852)
Net book value	29 405	0	29 405	244	18 499	51 566	70 065

The other non-current financial assets mainly contain fixed deposits of KCHF 50 000 (2005: KCHF 0) and loans to third parties. The cost of fully amortized goodwill was offset with the accumulated amortization and impairment at 1.1.2005.

Notes	2006 (CHF '000)	2005 (CHF '000)
10 Inventories		
Raw materials and supplies	72 422	61 856
Semi-finished goods, work in progress	7 396	7 761
Finished products	173 553	154 648
Value adjustments	(27 316)	(27 555)
Advance payments on goods	76	29
Total inventories	226 131	196 739
11 Trade accounts receivable		
Trade accounts receivable from associated companies	87	46
Trade accounts receivable from third parties	241 052	221 021
Provision for bad debts	(7 433)	(7 121)
Total trade accounts receivable	233 706	213 946
12 Other receivables		
Receivables from associated companies	8	67
Other receivables	53 582	40 448
Prepayments and accrued income	14 111	17 883
Total other receivables	67 701	58 398
13 Current financial assets		
Securities	197 482	200 244
Financial investments	235 366	748 151
Total current financial assets	432 848	948 395
Financial investments consist exclusively of the shareholding in Lonza Group AG.		
14 Cash and cash equivalents		
Deposits	771 795	387 507
Cash and cash equivalents	719	11 684
Total cash and cash equivalents	772 514	399 191

Notes		2006 (CHF '000)	2005 (CHF '000)
15	Share capital		
		Number of issued registered shares	Number of treasury shares
	Par value		Number of shares entitled to dividend
			Share capital (CHF '000)
	At 31.12.2004	CHF 0.01	25 052 870
		797 270	24 255 600
	Purchase of treasury shares	–	599 757
	Sale of treasury shares	–	(154 728)
			(599 757)
			154 728
	At 31.12.2005	CHF 0.01	25 052 870
		1 242 299	23 810 571
	Purchase of treasury shares	–	1 096 657
	Sale of treasury shares	–	(4 450)
			(1 096 657)
			4 450
	At 31.12.2006	CHF 0.01	25 052 870
		2 334 506	22 718 364
			251
16	Changes in fair value of financial instruments: Changes in fair value of securities and financial investments		
	At 1.1.		121 503
			(58 179)
	Transfer into consolidated income statement		(87 154)
	Fair value changes according to IAS 39		105 539
	Income taxes recognized directly in equity due to fair value adjustments		(7 165)
			(13 595)
	Total changes in fair value of financial instruments		11 220
			179 682
	At 31.12.		132 723
			121 503
17	Minority interests		
	This item reflects the minority interests in capital and profit / loss for the year. Minorities own significant shares in EMS-UBE Ltd., EFTEC Asia Pte. Ltd., Shanghai EFTEC Chemical Products Ltd., Changchun EFTEC Chemical Products Ltd. and EFTEC Europe Holding AG. The change in minority interests is as follows:		
	At 1.1.		41 572
	Purchase minority interests		0
	Dividends paid		(3 111)
	Net income		10 226
	Currency translation differences		(859)
			2 216
	At 31.12.		47 828
			41 572
18	Bonds		
	EMS-CHEMIE HOLDING AG: 2% convertible bond 2002 – 25.7.2008		289 902
	EMS-CHEMIE HOLDING AG: 4% debenture bond 2002 – 29.7.2008		201 582
	EMS-INTERNATIONAL FINANCE (Guernsey) Ltd.: 2.5% convertible bond 2002 – 23.4.2010		160 598
			240 237
	Total bonds		652 082
			734 730
	The option component of the convertible bonds is separately stated in the balance sheet. The bonds are stated less repurchases via stock exchange. The bonds contain standard covenants (pari passu, cross-default, negative pledge clause with exceptions). The convertible bonds offer standard anti-dilution protection (anti-dilution protection by reduction of conversion price).		

Notes	2006 (CHF '000)	2005 (CHF '000)
Details to the bonds issued:		
2% convertible bond 2002 – 25.7.2008 (nominal CHF 300 million)		
Each bond of CHF 5 000 can be converted at any time during the conversion period (25.7.2002 – 15.7.2008) either into 39,52569 registered shares of Lonza Group AG or into 39,00156 registered shares of EMS-CHEMIE HOLDING AG (choice lies with bond holder) [conversion price per Lonza share: CHF 126.50; conversion price per EMS share: CHF 128.20; in the case of a delisting of EMS registered shares the conversion right is lost for those shares, and the conversion price for Lonza is reduced from CHF 126.50 to CHF 121].		
The issuer has the right to settle the obligation in cash instead of delivering registered shares of Lonza Group AG or registered shares of EMS-CHEMIE HOLDING AG. In spite of the possibility of conversion into EMS shares the total option component is regarded as a liability.		
The net present value is as follows:		
Present value issued bond	291 134	285 706
Present value repurchased bond	(1 232)	(349)
At 31.12.	289 902	285 357
Fair value at 31.12.	347 124	313 134
4% debenture bond 2002 – 29.7.2008 (nominal since 28.7.2005: CHF 255 million, original: CHF 300 million)		
Due to the repurchase of bonds of nominal CHF 45 million, the nominal value was reduced from CHF 300 million to CHF 255 million per 28.7.2005. All other terms of the bond stay unchanged.		
The net present value is as follows:		
Present value issued bond	254 422	254 071
Present value repurchased bond	(52 840)	(44 935)
At 31.12.	201 582	209 136
Fair value at 31.12.	205 980	220 710
2.5% convertible bond 2002 – 23.4.2010 (nominal CHF 350 million)		
Each bond of CHF 5 000 can be converted at any time during the conversion period (23.4.2002 – 13.4.2010) into 40 registered shares of Lonza Group AG (conversion price per Lonza share: CHF 125).		
The net present value is as follows:		
Present value issued bond	334 022	329 589
Present value repurchased bond	(173 424)	(89 352)
At 31.12.	160 598	240 237
Fair value at 31.12.	178 713	264 299

Notes	2006 (CHF '000)	2005 (CHF '000)			
19 Bank loans					
The current bank loans are composed as follows:					
JPY: Average interest rate 0.80% (2005: 0.61%)	9 243	11 729			
USD: Average interest rate 5.66% (2005: 3.78%)	5 184	3 085			
CNY: Average interest rate 6.12% (2005: 5.58%)	1 248	810			
CHF: Average interest rate 9.68% (2005: -)	14	0			
Total current bank loans	15 689	15 624			
The carrying amounts of bank loans approximate to their fair value.					
20 Other non-current liabilities					
Other non-current liabilities	631	689			
Liabilities from employee benefits IAS 19 (rev.)	9 006	8 094			
Total other non-current liabilities	9 637	8 783			
Liabilities from employee benefits IAS 19 (rev.) include KCHF 5 269 (2005: KCHF 5 519) liabilities from Swiss pensions plans (see note 3).					
21 Provisions					
	Pension liabilities	Provisions for restructuring costs	Provisions for litigation risks	Other provisions	Total
(CHF '000)					
At 1.1.2005	1 273	5 000	73 245	14 384	93 902
Increase via income statement	67	1 211	5 828	1 635	8 741
Decrease via income statement	(53)	0	(10 062)	(359)	(10 474)
Amounts used	(4)	0	(63)	(1 657)	(1 724)
Translation differences	12	(10)	3	79	84
At 31.12.2005	1 295	6 201	68 951	14 082	90 529
Of which: Current portion of provisions	0	0	16 877	0	16 877
Non-current portion of provisions	1 295	6 201	52 074	14 082	73 652
At 1.1.2006	1 295	6 201	68 951	14 082	90 529
Increase via income statement	130	0	53	136	319
Decrease via income statement	0	(84)	(384)	(18)	(486)
Amounts used	(96)	(1 102)	(8 000)	(41)	(9 239)
Reclassifications	0	0	0	(2 136)	(2 136)
Translation differences	29	34	10	32	105
At 31.12.2006	1 358	5 049	60 630	12 055	79 092
Of which: Current portion of provisions	0	0	17 315	0	17 315
Non-current portion of provisions	1 358	5 049	43 315	12 055	61 777
Pension liabilities mainly contain provisions for payments to governmental institutions or independent defined contribution pension plans of subsidiaries abroad.					
Within the provisions for litigation risks, the risk arising from litigation processes is adequately covered as at the time of preparation of the financial statements (see note 30).					
Warranty provisions are mainly included within other provisions.					

Notes	2006 (CHF '000)	2005 (CHF '000)
22 Other current liabilities		
Advances from customers	1 549	2 302
Prepaid expenses and deferred income	82 259	89 214
Other current liabilities to associated companies	1 856	484
Liabilities to social security institutions	11 212	7 807
Other current liabilities	35 583	21 884
Total other current liabilities	132 459	121 691
23 Liabilities, net/(net cash position)		
Bonds (see note 18)	652 082	734 730
Option component of convertible bonds	34 820	18 128
Pension liabilities (see note 21)	1 358	1 295
Current bank loans (see note 19)	15 689	15 624
Interest-bearing liabilities	703 949	769 777
less		
Other non-current financial assets (see note 9)	50 000	0
Receivables from associated companies (see note 12)	8	67
Securities (see note 13)	197 482	200 244
Financial investments in current assets (see note 13)	235 366	748 151
Deposits (see note 14)	771 795	387 507
Interest-bearing liabilities, net/(cash, net)	(550 702)	(566 192)
less		
Cash and cash equivalents (see note 14)	719	11 684
Liabilities, net/(net cash position)	(551 421)	(577 876)

## Consolidated Cash Flow Statement

24 Depreciation, amortization and impairment of intangible assets, property, plant and equipment and financial assets		
Amortization intangible assets	3 183	3 382
Depreciation property, plant and equipment	46 362	46 923
Impairment property, plant and equipment	1 600	6 535
Subtotal depreciation, amortization and impairment of intangible assets and property, plant and equipment	51 145	56 840
Impairment financial investments in current assets	0	1 254
Value adjustment to financial assets	8	(8)
Total depreciation, amortization and impairment of intangible assets, property, plant and equipment and financial assets	51 153	58 086
For the breakdown of the depreciation, amortization and impairment of intangible assets and property, plant and equipment please refer to note 9 and to the segment reporting.		



Notes			2006 (CHF '000)	2005 (CHF '000)
25 Purchase/disposal of fully consolidated companies and of discontinued activities				
	Additions	Disposals		
Non-current assets	0	0	0	(238 371)
Non-current liabilities	0	0	0	46 175
Working capital	0	0	0	(66 036)
Net assets acquired/divested	0	0	0	(258 232)
Cash and cash equivalents	-	0	0	(12 090)
Investment book value	-	0	0	6 000
Effect of spin-off EMS-DOTTIKON on retained earnings	-	0	0	(264 322)
Purchase price (paid)/received	0	0	0	0
Cash and cash equivalents	0	0	0	(12 090)
Cash flow from (purchase)/disposal of fully consolidated companies and of discontinued activities	0	0	0	(12 090)
<p>Within the process of concentration on Performance Polymers, the exclusive synthesis specialist EMS-DOTTIKON was spun off and listed on the stock exchange on March 31, 2005. As a consequence, EMS-DOTTIKON is shown as "discontinued activities".</p> <p>The details are as follows:</p>				
Income statement			-	1.1.-31.3.
Net sales revenue from goods and services			-	34 962
EBITDA			-	4 566
Depreciation and amortization			-	(2 947)
EBIT			-	1 619
Net financial income			-	(557)
Net income before taxes			-	1 062
Income taxes			-	219
Net income			-	843
Balance sheet			-	31.12.
Non-current assets			-	-
Current assets			-	-
Total assets			-	-
Equity			-	-
Liabilities			-	-
Total equity and liabilities			-	-
Cash flow statement			-	1.1.-31.3.
Cash flow from operating activities			-	15 522
Cash flow from investing activities			-	(8 578)
Cash flow from financing activities			-	3 691
Investments			-	1.1.-31.3.
Investments in intangible assets and property, plant and equipment			-	674

Notes			2006 (CHF '000)	2005 (CHF '000)	
26	Contingent liabilities				
	Contingent liabilities at the end of the year amount to		17 156	16 540	
	This mainly relates to issued guarantees. No legal proceedings are known to be in progress within the EMS Group which could have a significant impact on the Group's financial position in excess of the provisions booked in the balance sheet (see note 21).				
27	Open derivative financial transactions				
	The following summary shows the most important open derivative financial transactions:				
	SWAPS and forward rate agreements	EUR/CHF	Notional amount CHF	134 916	274 570
			Positive replacement value CHF	206	533
			Negative replacement value CHF	1 581	1 314
		JPY/CHF	Notional amount CHF	100 394	114 140
			Positive replacement value CHF	162	294
			Negative replacement value CHF	5 186	936
		USD/CHF	Notional amount CHF	59 008	92 551
			Positive replacement value CHF	1 187	846
			Negative replacement value CHF	13	2 077
		EUR/USD	Notional amount CHF	0	3 144
			Positive replacement value CHF	0	5
			Negative replacement value CHF	0	0
	Currency options	EUR/CHF	Notional amount CHF	39 124	18 684
			Positive replacement value CHF	1	0
			Negative replacement value CHF	809	65
		JPY/CHF	Notional amount CHF	0	1 665
			Positive replacement value CHF	0	8
			Negative replacement value CHF	0	0
	Interest swaption	CHF	Notional amount CHF	0	325 000
			Positive replacement value CHF	0	762
			Negative replacement value CHF	0	4 334
	Equity options	CHF	Notional amount CHF	358 680	351 000
			Positive replacement value CHF	11 239	6 935
			Negative replacement value CHF	10 190	200
	Total		Notional amount CHF	692 122	1 180 754
			Positive replacement value CHF	12 795	9 383
			Negative replacement value CHF	17 779	8 926
	Derivative financial transactions were mostly effected for hedging purposes. SWAPS, forward rate agreements and currency option contracts are used for the hedging of foreign currencies. Interest rate SWAPS serve to hedge the risks of interest rate changes. Equity options serve to hedge the market risks inherent in current financial assets and of bonds. The replacement value is understood as being the fair value of open derivative financial transactions. Positive replacement values are the values that are lost if the counterparty cannot deliver (default risk). This risk is considered to be minimal, as the counterparties are first-rate financial institutions. Any derivatives are reported at fair value within accrued income and deferred income respectively, with changes in fair value included in financial income/expenses.				

Notes	2006 (CHF '000)	2005 (CHF '000)
28 Earnings per share – EPS		
Earnings per share are calculated by dividing the net income attributable to the shareholders of EMS-CHEMIE HOLDING AG by the weighted average number of shares outstanding (excluding treasury shares). Diluted earnings per share factor in any potential dilution which may be caused by the exercising of warrant and conversion rights on outstanding bond issues.		
Details of earnings per share:		
Basic earnings per share		
Weighted average of registered shares outstanding	22 903 583	24 258 804
<i>Continued activities:</i>		
Net income attributable to the shareholders of EMS-CHEMIE HOLDING AG	297 441	176 291
Basic earnings per share (CHF)	12.99	7.27
<i>Discontinued activities:</i>		
Net income attributable to the shareholders of EMS-CHEMIE HOLDING AG	0	843
Basic earnings per share (CHF)	0.00	0.03
Diluted earnings per share		
Weighted average of registered shares outstanding (basic)	22 903 583	24 258 804
Adjustment for assumed conversion of 2% convertible bond, 2002 – 25.7.2008	2 330 187	2 337 371
Weighted average of registered shares outstanding at assumed conversion of 2% convertible bond (diluted)	25 233 770	26 596 175
Maximum	25 052 870	25 052 870
As the EMS Group has neither authorized nor conditional capital, the basis for calculation of diluted earnings per share is limited by the total number of shares issued.		
<i>Continued activities:</i>		
Net income attributable to the shareholders of EMS-CHEMIE HOLDING AG (basic)	297 441	176 291
Elimination of interest expenses relating to 2% convertible bond, 2002 – 25.7.2008	5 983	5 993
Elimination other expenses relating to 2% convertible bond, 2002 – 25.7.2008	15 218	8 236
Minus tax effect	(1 660)	(1 114)
Net income attributable to the shareholders of EMS-CHEMIE HOLDING AG (diluted)	316 982	189 406
Diluted earnings per share (CHF)	12.65	7.27
A dilution is a reduction in earnings per share resulting from the assumption that convertible instruments are converted. As in 2005 the calculated diluted earnings per share was higher than the basic earnings per share, there was no dilutive effect in 2005.		
<i>Discontinued activities:</i>		
Net income attributable to the shareholders of EMS-CHEMIE HOLDING AG (basic = diluted)	0	843
Basic / diluted earnings per share (CHF)	0.00	0.03

Notes	2006 (CHF '000)	2005 (CHF '000)
29 Significant shareholders		
Emesta Holding AG, Zug, 13 395 356 registered shares (2005: 13 395 356 registered shares) Amount of holding	53.47%	53.47%
No other representation of significant shareholders is known to the Board of Directors.		
30 Transactions with related parties		
Emesta Holding AG, Zug (majority shareholder), members of the Board of Directors and members of Senior Management as well as the close members of their families and associated companies are regarded as related parties. For financial key figures of the significant associated companies, see note 34.		
The members of the Board of Directors or Senior Management as well as the close members of their families did not receive any credits, advances or other types of loans. No related party transactions took place with them.		
The compensation to the non-executive members of the Board of Directors was KCHF 1 418 (2005: KCHF 1 418). The compensation to the executive members of the Board of Directors and the members of Senior Management amounted to KCHF 2 807 (2005: KCHF 2 818).		
The bonuses included in the reporting year consist of the bonuses estimated in the reporting year. The definitive bonuses for the reporting year are announced after the publication of this financial report and are presented in the annual report 2006/2007 in the Corporate Governance section, chapter 5.2 "Compensation for serving members of executive bodies".		
Breakdown of the total compensation		
Short-term employee benefits to the members of the Board of Directors and Senior Management	4 213	4 236
Share-based payment	0	0
Termination benefits	0	0
Post-employment benefits	0	0
Other long-term employee benefits	12	0
Total compensation	4 225	4 236
In connection with the sale of Atisholz to Emesta Holding AG in 2001, EMS-CHEMIE HOLDING AG issued a guarantee for warranties. This guarantee was CHF 22 million at 31. 12. 2006 (2005: CHF 30 million). CHF 8 million was used in 2006 (see note 21).		
31 Subsequent events		
On February 19, 2007, it was announced that Emesta Holding AG, Zug, previously majority shareholder of EMS-CHEMIE HOLDING AG (53.47%), now holds 11 895 356 registered shares of EMS-CHEMIE HOLDING AG, corresponding to an amount of holding of 47.48%.		
Miriam Blocher now directly or indirectly holds 1 969 000 registered shares of EMS-CHEMIE HOLDING AG, corresponding to an amount of holding of 7.86%.		
The consolidated financial statements were approved by the Board of Directors on March 23, 2007 and need to be approved by the General Meeting on August 11, 2007.		
Between December 31, 2006 and March 23, 2007 there were no subsequent events requiring an adjustment of the book values of Group assets and liabilities or needing to be published here.		

Notes

32 List of subsidiaries and minority holdings (at 31.12.2006)

Name	Domicile	Country
EMS-CHEMIE HOLDING AG	Domat/Ems	Switzerland
EMS-INTERNATIONAL FINANCE (Guernsey) Ltd.	Guernsey	Guernsey
EMS-FINANCE (Guernsey) Ltd.	Guernsey	Guernsey
EMS-MANAGEMENT SERVICES (Guernsey) Ltd.	Guernsey	Guernsey
EMS-PATENT AG	Domat/Ems	Switzerland
<b>BUSINESS AREA PERFORMANCE POLYMERS</b>		
EMS-CHEMIE AG	Domat/Ems	Switzerland
EMS-CHEMIE (France) S.A.	Boulogne	France
EMS-CHEMIE (UK) Ltd.	Stafford	UK
EMS-CHEMIE (Japan) Ltd.	Tokyo	Japan
EMS-UBE Ltd.	Ube	Japan
EMS-CHEMIE (Deutschland) GmbH	Gross-Umstadt	Germany
EMS-CHEMIE (Asia) Ltd.	Hsin Chu Hsien	Taiwan (R. O. C.)
EMS-GRILON HOLDING Inc.	Wilmington, DE	USA
EMS-CHEMIE (North America) Inc.	Sumter, SC	USA
EFTEC Europe Holding AG	Zug	Switzerland
EFTEC AG	Romanshorn	Switzerland
EFTEC Sàrl	Montataire Cedex	France
EFTEC Engineering AB	Hässleholm	Sweden
EFTEC Engineering GmbH	Markdorf	Germany
EFTEC Ltd.	Rhigos	UK
EFTEC NV	Genk	Belgium
EFTEC S.A.	Zaragoza	Spain
EFTEC Asia Pte. Ltd.	Singapore	Singapore
EFTEC (Thailand) Co. Ltd.	Rayong	Thailand
Shanghai EFTEC Chemical Products Ltd.	Shanghai	China (People's Rep.)
Changchun EFTEC Chemical Products Ltd.	Changchun	China (People's Rep.)
EFTEC Shroff (India) Ltd.	Mumbai	India
D PLAST-EFTEC a.s.	Zlín	Czech Republic
EMS-TOGO Corp.	Taylor, MI	USA
EFTEC North America, L.L.C.	Madison Heights, MI	USA
DINOL Holding AB	Hässleholm	Sweden
DINOL AB	Hässleholm	Sweden
EFTEC Aftermarket GmbH	Lügde	Germany
<b>BUSINESS AREA FINE CHEMICALS/ENGINEERING</b>		
EMS-PRIMID *		
EMS-PATVAG AG	Domat/Ems	Switzerland
EMS-PATVAG s.r.o.	Prague	Czech Republic
EMS-METERING AG	Männedorf	Switzerland

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

Consolidation:  
K = Fully consolidated  
E = Equity valuation

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

Currency	Share capital (in '000)	Holding		Category	Consolidation
		Group	direct		
CHF	251			D	K
CHF	50	100.00%	100.00%	D	K
CHF	1	100.00%	100.00%	D	K
CHF	1	100.00%	100.00%	D	K
CHF	100	100.00%	100.00%	D	K
CHF	100	100.00%	100.00%	P,V	K
EUR	1 951	100.00%	100.00%	V	K
GBP	1 530	100.00%	100.00%	V	K
JPY	300 000	100.00%	100.00%	V	K
JPY	1 500 000	66.67%	66.67%	P	K
EUR	2 556	100.00%	100.00%	P,V	K
TWD	281 000	100.00%	100.00%	P,V	K
USD	2 420	100.00%	95.87%	D	K
USD	11 285	100.00%	100.00%	P,V	K
CHF	8 000	70.00%	70.00%	D	K
CHF	2 500	70.00%	100.00%	P,V	K
EUR	8	70.00%	100.00%	V	K
SEK	5 000	70.00%	100.00%	V	K
EUR	25	70.00%	100.00%	P,V	K
GBP	352	70.00%	100.00%	P,V	K
EUR	1 240	70.00%	100.00%	P,V	K
EUR	944	70.00%	100.00%	P,V	K
USD	3 518	42.00%	60.00%	D,V	K
THB	30 000	42.00%	100.00%	P,V	K
CNY	20 750	25.20%	60.00%	P,V	K
CNY	27 500	25.20%	60.00%	P,V	K
INR	15 000	20.58%	49.00%	P,V	E
CZK	47 569	35.00%	50.00%	P,V	E
USD	750	100.00%	100.00%	D	K
USD	44 139	30.00%	30.00%	P,V	E
SEK	100	100.00%	100.00%	D	K
SEK	1 000	100.00%	100.00%	V	K
EUR	1 023	100.00%	100.00%	P,V	K
CHF	100	100.00%	100.00%	P,V	K
CZK	200	100.00%	100.00%	D	K
CHF	100	100.00%	100.00%	D	K

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Notes

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33 Change in scope of consolidation

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Fully-consolidated:

Addition:

EMS-PATVAG s.r.o.

This company was founded on April 28, 2006.

Disposal:

SEGURO Corp.

This company was merged with EMS-TOGO Corp. on January 1, 2006.

Miscellaneous:

GRIVELA AG

This company changed its name to EMS-METERING AG on June 6, 2006.

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34 Significant associated companies

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EFTEC North America, L.L.C.

Domicile	Madison Heights, MI, USA
Percentage held	30.00%
Financial year	December 1, 2005 – November 30, 2006
Category	Production, Sale
Currency	USD
Net sales revenue	KCHF 109 022
Non-current assets	KCHF 46 655
Current assets	KCHF 26 556
Equity	KCHF 58 007
Liabilities	KCHF 15 204
Net income	KCHF 4 642

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Between December 1, 2006 and December 31, 2006 no events occurred that materially influenced shareholders' equity.

D PLAST-EFTEC a.s.

Domicile	Zlín, Czech Republic
Percentage held	35.00%
Financial year	January 1, 2006 – December 31, 2006
Category	Production, Sale
Currency	CZK
Net sales revenue	KCHF 32 691
Non-current assets	KCHF 8 030
Current assets	KCHF 21 124
Equity	KCHF 20 402
Liabilities	KCHF 8 752
Net income	KCHF 5 489

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

As Group Auditors, we have audited the consolidated financial statements (income statement, balance sheet, changes in equity, cash flow statement and notes) of EMS-CHEMIE HOLDING AG, Domat/Ems, for the year ended December 31, 2006 as presented on pages 22 to 54. Certain financial statements of subsidiaries which form a material part of the consolidated financial statements have been audited by other auditors.

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

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We

have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

Zurich, March 23, 2007

KPMG AG

Hanspeter Stocker  
Swiss Certified  
Accountant  
Auditor in charge

François Rouiller  
Swiss Certified  
Accountant



**Annual Accounts**  
**EMS-CHEMIE HOLDING AG**

**(for the Financial Year May 1, 2006 – April 30, 2007)**



EMS-CHEMIE HOLDING AG  
Domat/Ems Switzerland

## Income Statement May 1, 2006 to April 30, 2007

	Notes	2006/2007 (CHF '000)	2005/2006 (CHF '000)
<b>INCOME</b>			
Financial income			
Interest income from third parties		5 152	9 681
Interest income from group companies		2 323	3 827
Foreign exchange differences, net	1	0	9 698
Income from sale of investments in group companies		238	817
Dividends on group companies		140 939	118 600
Income from financial assets, realized		49 986	20 359
Income from financial assets, unrealized		16 192	111 307
<b>Total income</b>		<b>214 830</b>	<b>274 289</b>
<b>EXPENSES</b>			
Financial expenses			
Expenses from financial assets, realized		1 033	9 817
Expenses from financial assets, unrealized		46 319	0
Interest expenses to third parties		17 332	24 390
Interest expenses to group companies		1 367	6 920
Foreign exchange differences, net	1	521	0
Bank charges, duties, fees		951	843
Administration expenses		1 534	302
Expenses arising from guarantees	2	8 000	0
<b>Total expenses</b>		<b>77 057</b>	<b>42 272</b>
<b>Net income before taxes</b>		<b>137 773</b>	<b>232 017</b>
<b>Taxes</b>		<b>1 266</b>	<b>10 308</b>
<b>Net income</b>		<b>136 507</b>	<b>221 709</b>

## Balance Sheet as at April 30, 2007

	Notes	30. 4. 2007 (CHF '000)	30. 4. 2006 (CHF '000)
<b>Non-current assets</b>		<b>377 781</b>	<b>233 243</b>
Investments in group companies	3	274 913	175 753
Loans to group companies		52 868	57 490
Other non-current financial assets		50 000	0
<b>Current assets</b>		<b>780 668</b>	<b>992 728</b>
Prepayments and accrued income		3 430	5 618
Accounts receivable from third parties and group companies	4	9 033	3 998
Current financial assets	5	470 396	938 927
Cash and cash equivalents		297 809	44 185
<b>TOTAL ASSETS</b>		<b>1 158 449</b>	<b>1 225 971</b>
<b>Shareholders' equity</b>	6	<b>576 640</b>	<b>587 807</b>
Share capital	7/8	251	251
Legal reserves		50	50
Reserves for treasury shares	5	268 161	265 180
Other reserves		10 000	10 000
Retained earnings	9	298 178	312 326
Balance brought forward		161 671	90 617
Net income		136 507	221 709
<b>Liabilities</b>		<b>581 809</b>	<b>638 164</b>
<b>Non-current liabilities</b>		<b>516 149</b>	<b>599 169</b>
Loans from group companies		0	30 000
Bonds	10	501 980	555 000
Provisions		14 169	14 169
<b>Current liabilities</b>		<b>65 660</b>	<b>38 995</b>
Accruals and deferred income		12 094	17 032
Accounts payable to third parties and group companies	11	53 566	21 963
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1 158 449</b>	<b>1 225 971</b>
Balance sheet equity ratio		49.8%	47.9%

### Accounting principles

#### 1. General

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The financial statements of EMS-CHEMIE HOLDING AG have been prepared in accordance with the historical cost convention and with the provisions of Swiss law. Assets, liabilities and shareholders' equity are valued at the lower of cost or market and the principle of prudence is applied. The financial year differs from the calendar year (closing date: April 30, 2007). Companies in which EMS-CHEMIE HOLDING AG's shareholding is in excess of 50% (voting rights) are designated as group companies.

#### 2. Foreign currency translation

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Revenue and expenditure in foreign currencies are translated into Swiss francs for the profit and loss account at the average rates for the month in which they arose.

Financial assets and current assets are translated at the year-end rate, as are current liabilities.

#### 3. Current assets

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Appropriate value adjustments have been effected for balances subject to risk.

Current financial assets are shown at the lower of cost or market value, derivative financial instruments at market value.

#### 4. Non-current assets

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Non-current assets are shown at purchase value or at face value less any value adjustments required, as the case may be.

#### 5. Liabilities

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Non-current liabilities are shown at their redemption value.

## Income Statement 2006 / 2007

Notes	2006/2007 (CHF '000)	2005/2006 (CHF '000)
1 Foreign exchange differences, net		
Foreign exchange gains	4 097	13 453
Foreign exchange losses	4 618	3 755
Foreign exchange differences, net	(521)	9 698
2 Expenses arising from guarantees		
In connection with the sale of Atisholz to Emesta Holding AG in 2001, EMS-CHEMIE HOLDING AG issued a guarantee for warranties (see note 12). This guarantee stood at CHF 22 million as of April 30, 2007 (April 30, 2006: CHF 30 million). CHF 8 million was utilized in the reporting year.		

## Balance Sheet as at April 30, 2007

3 Investments in group companies		
Investments as at December 31, 2006 are shown on pages 52 to 53. In the period to April 30, 2007, investments changed as follows:		
Miscellaneous:		
EMS-CHEMIE (Asia) Ltd.		
This company changed its name to EMS-CHEMIE (Taiwan) Ltd. as of January 1, 2007.		
EMS-INTERNATIONAL FINANCE (Guernsey) Ltd.		
This company implemented a capital increase amounting to CHF 100 million as of April 30, 2007.		
4 Accounts receivable from third parties and group companies		
Accounts receivable from third parties	2 826	3 943
Accounts receivable from group companies	6 207	55
Accounts receivable from third parties and group companies	9 033	3 998

Notes		2006/2007 (CHF '000)	2005/2006 (CHF '000)			
5	Current financial assets					
	Securities	54 640	38 516			
	Repurchased bonds	1 339	56 962			
	Treasury shares	268 161	265 180			
	Financial investments	146 256	578 269			
	<b>Current financial assets</b>	<b>470 396</b>	<b>938 927</b>			
	Financial investments consist exclusively of the shareholding in Lonza Group AG.					
	Details to treasury shares:	Number of registered shares				
		2006/2007	2005/2006			
	Balance at May 1	2 314 897	662 519			
	Purchases	26 245	1 654 707			
	Disposals	(4 450)	(2 329)			
	Conversion	(468)	0			
	<b>Balance at April 30</b>	<b>2 336 224</b>	<b>2 314 897</b>			
	During the year under review, 26 245 (2005/2006: 1 654 707) treasury shares were purchased at an average market price of CHF 135.09 (2005/2006: CHF 124.47) and 4 450 (2005/2006: 2 329) treasury shares were sold at an average market price of CHF 135.02 (2005/2006: CHF 109.83). Shares were traded on the stock exchange.					
	Convertible bonds with a nominal value of KCHF 60 (2005/2006: KCHF 0) were converted into 468 (2005/2006: 0) treasury shares at the conversion price of CHF 128.20 (see note 10).					
6	Shareholders' equity					
	Balance at May 1	587 807	463 585			
	Dividends paid	(147 674)	(97 487)			
	Net income (see note 9)	136 507	221 709			
	<b>Balance at April 30</b>	<b>576 640</b>	<b>587 807</b>			
7	Share capital					
		Par value	Number of issued registered shares	Number of treasury shares	Number of shares entitled to dividend	Share capital (CHF '000)
	Balance at May 1, 2006	CHF 0.01	25 052 870	2 314 897	22 737 973	251
	Change in treasury shares		–	21 327	(21 327)	–
	<b>Balance at April 30, 2007</b>	<b>CHF 0.01</b>	<b>25 052 870</b>	<b>2 336 224</b>	<b>22 716 646</b>	<b>251</b>



Notes	2006/2007 (CHF '000)	2005/2006 (CHF '000)
8 Significant shareholders Emesta Holding AG, Zug, 11 895 356 registered shares (2005/2006: 13 395 356 registered shares)		
Amount of holding	47.48%	53.47%
Miriam Blocher, 1 969 000 registered shares (2005/2006: –)		
Amount of holding	7.86%	–
No other representation of significant shareholders is known to the Board of Directors.		
9 Retained earnings		
Balance brought forward	312 326	393 855
Dividends paid	(147 674)	(97 487)
Reclassification reserves for treasury share	(2 981)	(205 751)
Net income	136 507	221 709
Retained earnings	298 178	312 326
10 Bonds		
2 % convertible bond 2002 – 25. 7. 2008	299 940	300 000
4 % debenture bond 2002 – 29. 7. 2008	202 040	255 000
Bonds	501 980	555 000
Details of the bonds can be seen in note 18, “Bonds”, in the consolidated financial statements of the EMS Group. Convertible bonds with a nominal value of KCHF 60 (2005/2006: KCHF 0) were converted into treasury shares (see note 5). Due to the repurchase of bonds with a nominal value of KCHF 52 960, the nominal value was reduced from KCHF 255 000 to KCHF 202 040 as of March 30, 2007. All other terms of the bond remain unchanged.		
11 Accounts payable to third parties and group companies		
Accounts payable to third parties	3 051	9 324
Accounts payable to group companies	50 515	12 639
Accounts payable to third parties and group companies	53 566	21 963
<b>Further Details</b>		
12 Contingent liabilities		
Guarantees (maximum liability)	594 861	539 093
To secure the convertible bond in the amount of CHF 350 million issued by EMS-INTERNATIONAL FINANCE (Guernsey) Ltd. in April 2002, EMS-CHEMIE HOLDING AG granted a guarantee in the amount of CHF 367.5 million.		

## Proposals of the Board of Directors

At the Ordinary General Meeting of Shareholders held on August 11, 2007, the Board of Directors will present the following proposals regarding the 2006/2007 financial year:

1. Approval of the Annual Report and the consolidated financial statements for the year ended December 31, 2006 and the financial statements for the year ended April 30, 2007;

2. Discharge of the Board of Directors from its responsibilities for the conduct of the business;

3. Retained earnings consisting of:

	2006/2007	2005/2006
Net income	136 507 357.46	221 709 420.33
Reclassification reserves for treasury shares	(2 981 109.65)	(205 751 075.29)
Balance brought forward	164 652 299.48	296 367 701.44
Retained earnings	298 178 547.29	312 326 046.48
to be appropriated as follows:		
Payment of an ordinary dividend of CHF 5.50 (previous year CHF 5.00) gross and a special dividend of CHF 2.15 (previous year CHF 1.50) gross per registered share entitled to dividend	(124 941 553.00)	(113 595 190.00)
	(48 840 788.90)	(34 078 557.00)
Balance to be carried forward	124 396 205.39	164 652 299.48

4. Schedule

The dividend is payable as of August 15, 2007.

Domat/Ems, May 25, 2007

EMS-CHEMIE HOLDING AG  
 The Chairman of the Board of Directors  
 Dieter Klug

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

As statutory auditors, we have audited the accounting records and the financial statements presented on pages 58 to 63 consisting of income statement, balance sheet and notes of EMS-CHEMIE HOLDING AG for the year ended April 30, 2007.

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 Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of 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 and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

Zurich, May 25, 2007

KPMG AG

Hanspeter Stocker  
Swiss Certified  
Accountant  
Auditor in charge

François Rouiller  
Swiss Certified  
Accountant

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