

***First-half report 2006***  
***of the EMS Group***



EMS-CHEMIE HOLDING AG  
Domat/Ems Switzerland

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## The EMS Group in the first half of 2006

For the first half of 2006 the EMS Group\* with global activities in the business areas **Performance Polymers** and **Fine Chemicals / Engineering** and with its companies combined in EMS-CHEMIE HOLDING AG reports net sales revenue boosted by 11.5% and operating income (EBIT) up by 16.5% against the corresponding 2005 period. These results exceed expectations.

Consolidated **net sales revenue** increased by 11.5% to CHF 706 million (634), the corresponding increase in local currencies was 10.5%. The very satisfactory development of volumes in the Performance Polymers area as well as the higher average sales prices had a positive effect on net sales revenues.

**Operating income (EBIT)** was boosted by 16.5% against the previous year to CHF 120 million (103), **EBITDA** by 10.5% to CHF 146 million (133). The **EBIT margin** is hence 17.1% (16.3%), the **EBITDA margin** 20.7% (20.9%). The progressive development of speciality products has again produced higher operating income (EBIT) and EBITDA. The very satisfactory course of business in main area Performance Polymers was supported by the globally buoyant economic situation, especially in the 1<sup>st</sup> quarter of 2006. **Financial income** amounted to a high CHF 37 million (-2), a result that can largely be attributed to the successful sale of LONZA investments.

**Net income** for the first half of 2006 was CHF 123 million (77) and cash flow totalled CHF 149 million (107).

**Equity** decreased to CHF 1'047 million (31.12.2005: CHF 1'083 million). The equity ratio is now 46.0% (31.12.2005: 46.1%).

\*) All information provided in the following refers to the scope of consolidation as of April 1, 2005 ("continued activities"), i.e. without the EMS-DOTTIKON business unit which was spun off on March 31, 2005.

## **Outlook 2006**

EMS expects the positive economic environment to continue in the second half of 2006, even though initial signs of a slow-down are already emerging in the USA. In view of the steadily rising prices for raw materials and the enduringly high cost pressures in the automobile industry, EMS will continue to focus on speciality products, with the aim of taking advantage of the sales opportunities for high-margin specialities from the Performance Polymers business area.

EMS anticipates a positive course of business for 2006 and remains confident that the expectation issued at the beginning of the year – net sales revenue and net operating income (EBIT) 2006 slightly higher than 2005 – will be met.

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

## Financial report of the EMS Group for the first half of 2006

CHF millions	Notes	2006 Jan-Jun	2005 Jan-Jun
<b>Consolidated income statement</b>			
<b>Continued activities:</b>			
<b>Net sales revenue</b>		<b>706</b>	634
change		<b>+11.5%</b>	+8.7%
in local currencies		<b>+10.5%</b>	+9.7%
<b>EBITDA</b> <sup>1)</sup>		<b>146</b>	133
change		<b>+10.5%</b>	+5.0%
in % of net sales revenue		<b>20.7%</b>	20.9%
<b>EBIT</b> <sup>2)</sup>		<b>120</b>	103
change		<b>+16.5%</b>	+3.5%
in % of net sales revenue		<b>17.1%</b>	16.3%
<b>Financial income</b>		<b>37</b>	-2
change		---	---
<b>Income from continued activities, before taxes</b>		<b>157</b>	101
change		<b>+55.0%</b>	-15.0%
<b>Income taxes</b>		<b>34</b>	24
change		<b>+38.6%</b>	-33.8%
<b>Net income from continued activities</b>		<b>123</b>	77
change		<b>+60.2%</b>	-6.6%
in % of net sales revenue		<b>17.5%</b>	12.2%
<b>Discontinued activities:</b>			
Net income from discontinued activities, after taxes	1	<b>0</b>	1
<b>Net income</b> <sup>3)</sup>		<b>123</b>	78
change		<b>+58.5%</b>	-15.3%
in % of net sales revenue		<b>17.5%</b>	12.3%
<b>Of which attributable to:</b>			
- Shareholders of EMS-CHEMIE HOLDING AG		<b>118</b>	76
- Minority interest		<b>6</b>	1

<sup>1)</sup> EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization  
= operational cash flow

<sup>2)</sup> EBIT = Earnings Before Interest and Taxes  
= operating income

<sup>3)</sup> Net income = profit after taxes from continued and discontinued activities, including minority interest.

CHF millions	Notes	2006 Jan-Jun	2005 Jan-Jun
<b>Additional key figures</b>			
<b>Earnings per share in CHF from continued activities</b>			
basic <sup>4)</sup>		<b>5.09</b>	3.10
diluted <sup>5)</sup>		<b>4.90</b>	3.10
<b>Earnings per share in CHF from discontinued activities</b>			
basic <sup>4)</sup>		---	0.03
diluted <sup>5)</sup>		---	0.03
<b>Cash flow from continued activities <sup>6)</sup></b>		<b>149</b>	107
in % of net sales revenue		<b>21.1%</b>	16.9%
<b>Investments in intangible assets and property, plant and equipment from continued activities</b>		<b>26</b>	20
in % of cash flow		<b>17.3%</b>	18.4%
<b>Number of employees on 30.06.2006 / 31.12.2005 (continued activities)</b>		<b>2'077</b>	2'055

CHF millions		2006 Jan-Jun	2005 Jan-Jun
<b>Consolidated cash flow statement <sup>7)</sup></b>			
Net income		<b>123</b>	78
+/- adjustment of items not affecting liquidity		<b>18</b>	68
+/- change in working capital		<b>4</b>	15
- taxes paid		<b>-40</b>	-32
+/- other		<b>-9</b>	-13
<b>Cash flow from operating activities</b>	<b>A</b>	<b>96</b>	116
<b>Cash flow from investing activities</b>	<b>B</b> 2	<b>166</b>	-14
<b>Cash flow from financing activities</b>	<b>C</b> 3, 4	<b>-212</b>	-112
<b>Change in currency translation</b>	<b>D</b>	<b>1</b>	-4
<b>Change in cash and cash equivalents (A+B+C+D)</b>		<b>51</b>	-14

<sup>4)</sup> The average weighted number of outstanding registered shares for the calculation is 23'091'776 shares on 30.06.2006 (30.06.2005: 24'383'048 shares).

<sup>5)</sup> The diluted earnings per share figure includes additional shares that could potentially be issued following the conversion of the 2% convertible bond (2002 - 25.7.2008) in registered shares of EMS-CHEMIE HOLDING AG as well as factors affecting net income (interest and taxes) from such conversion. As at 30.06.2006 the inclusion of these potential effects caused a dilution of CHF 0.19, whilst no dilution occurred in the reference period. The average weighted number of outstanding registered shares for the calculation is 25'082'870 shares on 30.06.2006 (30.06.2005: 25'082'870 shares).

<sup>6)</sup> Cash Flow = net income from continued activities plus write-downs on intangible assets, property, plant and equipment plus value adjustments to securities and financial investments.

<sup>7)</sup> Individual items were re-allocated in the previous year.

CHF millions	Notes	30.06.2006	31.12.2005
<b>Consolidated balance sheet</b>			
Non-current assets		530	534
Intangible assets		7	8
Property, plant and equipment		474	478
Financial assets		48	47
Deferred income tax assets		2	1
Current assets		1'745	1'817
Inventories		190	197
Accounts receivable		290	273
Current financial assets	2	816	948
Cash and cash equivalents		450	399
<b>Total assets</b>		<b>2'275</b>	<b>2'350</b>
Equity (incl. minority interest)		1'047	1'083
Liabilities		1'228	1'268
Non-current liabilities	3	892	953
Current liabilities		335	315
<b>Total equity and liabilities</b>		<b>2'275</b>	<b>2'350</b>
Balance sheet equity ratio		46.0%	46.1%

CHF millions		2006 Jan-Jun	2005 Jan-Jun
<b>Consolidated changes in equity</b>			
Equity 01.01.		1'083	1'118
Net income January - June		123	78
Spin-off EMS-DOTTIKON		0	-264
Transactions with treasury shares	4	-142	19
Changes in fair value of financial instruments		-8	84
Dividends paid to minority interest		-2	-1
Minority acquisitions from minority interest		0	-1
Currency translation differences		-6	14
<b>Equity 30.06.</b>		<b>1'047</b>	<b>1'047</b>
<i>Of which attributable to:</i>			
Shareholders of EMS-CHEMIE HOLDING AG		1'003	1'009
Minority interest		44	39
Balance sheet equity ratio		46.0%	44.4%
Change in % against 31.12.		-3.3%	-6.3%
Per div.-bearing registered share in CHF <sup>4)</sup>		45.35	42.96

## **Consolidated accounting principles**

### General information on the consolidated financial statements

These consolidated financial statements (termed “the consolidated interim financial statements” in the following) cover the non-audited consolidated first-half results for EMS-CHEMIE HOLDING AG with domicile in Switzerland and for its subsidiaries, for the reporting period ending on June 30, 2006. The consolidated interim financial statements have been prepared in accordance with the International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”, published by the International Accounting Standards Board (IASB), and should be read in conjunction with the consolidated financial statements compiled for the financial year ending on December 31, 2005, as they comprise an updating of previously published information.

The accounting principles applied to the consolidated interim financial statements correspond to the principles of the consolidated annual financial statements, with the exception of the changes described below. Individual comparative data adopted from the consolidated interim financial statements of the previous year have if necessary been reclassified or supplemented to account for changes to the presentation of the consolidated annual financial statements or these interim financial statements.

Preparation of the consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the time the accounts are drawn up. If at some time in the future these estimates and assumptions made by management to the best of its belief at the time the accounts were drawn up should deviate from the actual circumstances, the original estimates and assumptions will be adjusted accordingly in the reporting period in which the circumstances changed.

The EMS Group pursues activities in business areas in which sales are not subject to significant seasonal or cyclical fluctuations over the business year. The income taxes are calculated on the basis of a best estimate of the weighted average tax rate as anticipated for the year as a whole.

### Changes to the consolidated accounting principles

On January 1, 2006 the EMS Group introduced the revised standards IAS 19 “Employee Benefits”, IAS 21 “The Effects of Changes in Foreign Exchange Rates”, IAS 39 “Financial Instruments”, and IFRS 4 “Determining Whether an Arrangement Contains a Lease” which has just come into force. These adjustments had no significant effects on the consolidated interim financial statements.



## Subsequent events

On August 12, 2006 the Annual General Meeting approved the payment of dividends amounting to CHF 147.7 million.

The consolidated interim financial statements were approved by the Board of Directors on August 19, 2006.

There were no subsequent events requiring an adjustment of the book values of Group assets and liabilities or needing to be published here.

## **Notes**

### 1 Details to discontinued activities

<b>CHF millions</b>	<b>2006 Jan-Jun</b>	<b>2005 Jan-Jun</b>
<b><i>Income statement</i></b>		
Net sales revenue	---	35
EBITDA	---	5
EBIT	---	2
Financial income	---	-1
Net income before taxes	---	1
Income taxes	---	0
Net income	---	1
<b><i>Cash flow statement</i></b>		
Cash flow from operating activities	---	16
Cash flow from investing activities	---	-9
Cash flow from financing activities	---	4

### 2 Current financial assets

The decrease of current financial assets is primarily the result of sales of the financial investments in Lonza Group AG.

### 3 Non-current liabilities

Own bonds amounting to CHF 61.1 million were repurchased in the reporting period.

### 4 Transactions with treasury shares

A total of 1'095'983 treasury shares amounting to CHF 142.5 million were purchased in the reporting period.

## Development of net sales revenue and income by business areas in the first half of 2006 (continued activities only)

CHF millions	2006 Jan-Jun	%-dev. prev yr	2005 Jan-Jun	%-dev. prev yr
<b>Performance Polymers</b>				
Net sales revenue	637	+13.3%	562	+10.3%
- in local currencies		+12.3%		+11.4%
EBITDA	124	+13.4%	109	+5.8%
- in % of net sales revenue	19.4%		19.4%	
EBIT	104	+18.1%	88	+5.7%
- in % of net sales revenue	16.3%		15.6%	
<b>Fine Chemicals / Engineering</b>				
Net sales revenue	69	-3.1%	72	-2.0%
- in local currencies		-4.1%		-1.8%
EBITDA	23	-3.3%	24	+1.2%
- in % of net sales revenue	32.8%		32.8%	
EBIT	17	+7.5%	16	-6.9%
- in % of net sales revenue	24.4%		22.0%	
<b>EMS Group</b>				
Net sales revenue	<b>706</b>	<b>+11.5%</b>	634	+8.7%
- in local currencies		<b>+10.5%</b>		+9.7%
EBITDA <sup>1)</sup>	<b>146</b>	<b>+10.5%</b>	133	+5.0%
- in % of net sales revenue	<b>20.7%</b>		20.9%	
EBIT <sup>2)</sup>	<b>120</b>	<b>+16.5%</b>	103	+3.5%
- in % of net sales revenue	<b>17.1%</b>		16.3%	

<sup>1)</sup> EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization  
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## Remarks on the business areas in the first half of 2006

All business units of the **Performance Polymers** business area exceeded their growth targets. Highly satisfactory volume increases are reported for the specialities business. The customer industries in main market Europe and in the USA experienced a positive course of business. Higher demand for speciality products was recorded for the Asian sales market. The continuing significant rise in raw material prices necessitated further sales price increases.

In the **FINE CHEMICALS / ENGINEERING** business area, EMS-PATVAG (airbag ignitors) recorded the expected downward trend. EMS-PRIMID (leading manufacturer of crosslinkers for weather-resistant powder coatings) developed according to plan.



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