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Facts at a Glance

Group	2003	2002
Group net sales in CHF million	508.4	391.7
Change over previous year	+29.8%	
Cash flow in CHF million	57.1	44.6
Change over previous year	+28.3%	
EBITDA in CHF million	65.3	55.0
Change over previous year	+18.7%	
EBIT in CHF million	31.2	30.3
Change over previous year	+3.2%	
Group result (excl. third party interests) in CHF million	23.1	20.1
Change over previous year	+14.9	
Investment in fixed assets in CHF million	41.8	38.4
Equity (excl. third party interests) in CHF million	452.2	439.8
as % of total assets	63.7%	
Number of employees	Ø = 2 180	Ø = 1 775
Net sales per capita in CHF	233 230	220 680
Net value added per capita in CHF	140 390	140 200
Net value added = Net sales minus material costs of products sold		

For 4 year comparisons see financial review on pages 36/37

Gurit-Heberlein AG	2003	2002
Result in CHF million	15.3	10.0
Dividend	24%	24%
in CHF per bearer share at par CHF 100.–	24.–	24.–
in CHF per registered share at par CHF 20.–	4.80	4.80

Board and Group Management

(As per April 1, 2004)

Board of Directors

Robert Heberlein, Zumikon, Chairman
Dr. Paul Hälg, Wollerau
Hans Huber, Appenzell
Nick Huber, Balgach
Dr. Walter Känel, Jona
Paul J. Rudling, Newport GB
Moritz Suter, Basel

Group Management

Dr. Rudolf Wehrli, CEO
Peter Lieberherr, CFO
Jerry Sullivan, CEO Gurit Dental Care
Willem van den Bruinhorst, CEO Gurit Medical Business
Paul J. Rudling, CEO Gurit Composite Technologies
Martin Lüttsch, COO Gurit Composite Technologies
Heinz Michel, CEO Gurit Fiber Technology

Group Staff, Legal

Auditors

Siniša Stamenic
PricewaterhouseCoopers AG, St. Gallen

Management

(As per April 1, 2004)

Health Care

Gurit Dental Care

Coltène AG
Coltène/Whaledent Inc., USA
Coltène/Whaledent GmbH + Co. KG, Germany

Jerry Sullivan
Andreas Meldau
Jerry Sullivan
Andreas Meldau, Werner Mannschedel

Gurit Medical Business

GMB/Medisize Netherlands
Medisize Ireland
Medisize Czech Republic
B+P Beatmungsprodukte GmbH
Homedica AG

Willem van den Bruinhorst
Willem van den Bruinhorst
Joe Gilmartin
Kees Bos
Rudi Bruning
Reto Andreoli

Industrial Applications

Gurit Composite Technologies

SP Group
Stesalit AG
IMS Group
Gurit Suprem
Gurit-Worbla AG

Paul J. Rudling, Martin Lüttschg
Paul J. Rudling
Arnim Malzahn
Frank Heckner
Tobias Bolliger
Ernst Flückiger

Gurit Fiber Technology

Heberlein Fiber Technology Inc.
Enka tecnica GmbH
Enka tecnica Wetzlar GmbH
Electrotex AG
Arova Schaffhausen AG

Heinz Michel
Heinz Michel
Kees Reijnen
Kees Reijnen
Heinz Michel
Josef Kessler

Report of the Board of Directors and

After completing crucial steps on the way towards fundamental structural change in the Group the previous year, Gurit-Heberlein began 2003 in a new formation. During the first two years of the new millennium, Gurit made a considerable number of acquisitions that put it clearly on course for its new strategic positioning in Chemical and Synthetics Technology. The large acquisitions were all consolidated for the first full financial year in 2003. From this point of view, 2003 was the start of a new era in the company's history. However, in view of the fact that certain companies had belonged to the Group for differing lengths of time during the previous year and the one under review, and that a number of new acquisitions were made in 2003, it is still not possible to make an unconditional direct comparison of the key figures for different years. Nevertheless, the Financial Statements are a sound indication of the Group's potential for further development. The first year for the newly positioned Gurit-Heberlein Group got off to a very auspicious start in the Industrial Applications Division. The result of the Health Care Division was affected by a number of negative, special factors.

Today, Gurit-Heberlein is a leading international player in the Chemical and Synthetics Technology sector. In many segments of the market, the Group can rightfully claim to be at the forefront of technological development. With a solid new basis in technology and expertise, Gurit has carved out a leading position as a specialist supplier in selected market segments.

Management's main priority in 2003 was the organizational, technical and, in some cases, geographical amalgamation and consolidation of the Group's new industrial platform. At the same time, steps were taken to position the two Group Divisions' broad basis of technology and expertise prominently in their markets.

Clear development and growth strategies were drawn up for all four of the Group's strategic markets: the dental and medical sectors for the Health Care Division and the markets for high-performance composites and fiber technology components in the Industrial Applications Division. All these are in harmony with the Group overriding strategy and clearly mark out the tasks that lie ahead. This strategic direction is described in greater detail on the following pages. One factor all market sectors have in common is their global – or at least international – orientation. This is the reason why, in the recent past,

such importance has been attached to establishing direct and indirect distribution structures. Seen in this light, it comes as no surprise to learn that the Swiss Gurit-Heberlein Group became even more international during the year under review. Today, Gurit still produces around 27.4% of its total output in Switzerland but sales in the domestic market now only account for 6.4% of the total. Of the 2180 people who work for the Group, three thirds are employed by subsidiaries abroad.

“Ongoing innovation is part of a clearly defined Group strategy.”

In view of the difficult economic environment and the cost of integrating operations within the Group, Gurit-Heberlein closed the year with a just satisfactory result. Group operations were badly hit by the persistent weakness of the dollar but the negative effects were partially off-set by some hedging manoeuvres. However, it is clear that the Group failed to meet its overall sales and profit targets for the year. In cases where figures fell short of budget, more vigorous growth was prevented by a number of mostly explicable and non-recurring factors. Basically, though, the potential for future growth remains intact in all the Group's operations.

In 2003, the Group posted sales of CHF 508.4 million, an impressive increase of 30% over the previous year. Admittedly, a large proportion of the increase was due to a full year's consolidation or the first-time inclusion of new Group companies in the figures. Earnings before interests, taxes, depreciation and amortisation of goodwill (EBITDA) rose by 19% to CHF 65.3 million. After depreciation and – in the first few years following an acquisition proportionately the most significant factor – amortization of goodwill, EBIT increased by 3% to CHF 31.2 million.

After positive financial results, which among things reflected the success of currency hedging, the Group result

Group Management

was up by 15% over the previous year to CHF 23.1 million. The Group has thus achieved its important goal of realigning operations without seriously diluting profits. The Board of Directors will therefore be asking the General Meeting on May 27, 2004 to approve the payment of an unchanged dividend of CHF 24 per listed bearer share.

Thanks to the hard work and commitment of all Group employees, Gurit last year succeeded in strengthening its operating platform. A significant role was played here by the number of successful projects completed and several noteworthy new developments that reached maturity in 2003. Innovation today is an important way of guaranteeing success tomorrow. Gurit-Heberlein sees innovation as the responsibility of everyone from the most senior levels of management down to the production line. Investment in research and development is a reliable means of securing the Group's long-term success. Gurit will continue to earmark considerable sums for development in the future with a view to offering its customers real benefits in the form of new system solutions. "Satisfying our customers' unmet needs" is our maxim and will remain so in the future.

We should like to take this opportunity to thank all our business associates for the trust and confidence they have placed in the Group at all levels during the past year. We look forward to serving them and developing our business relationships with them in the future.

Special thanks from the Board of Directors and Management also go to our staff. For, ultimately, it is people, their professionalism and their commitment that have made Gurit-Heberlein the success it is today.

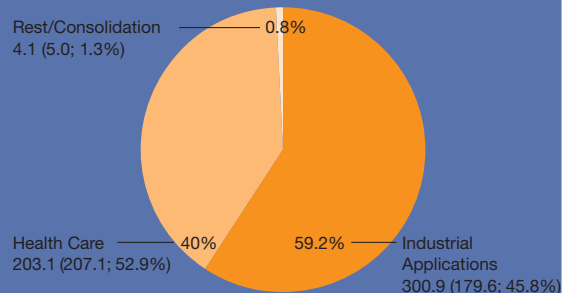


Robert Heberlein
Chairman of the
Board of Directors

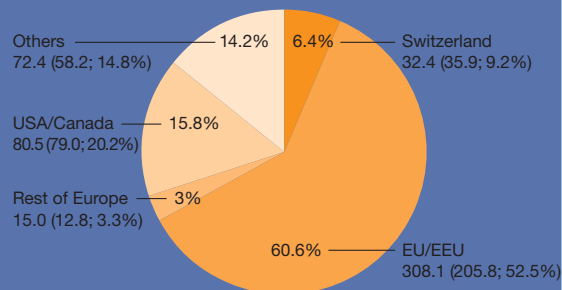


Dr. Rudolf Wehrli
Chief Executive Officer

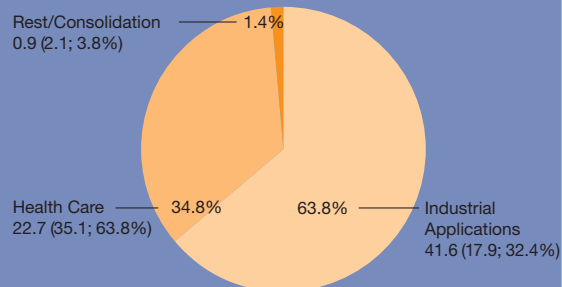
Sales in 2003 by Divisions



Share of sales by region in 2003



Division's contributions towards EBITDA in 2003



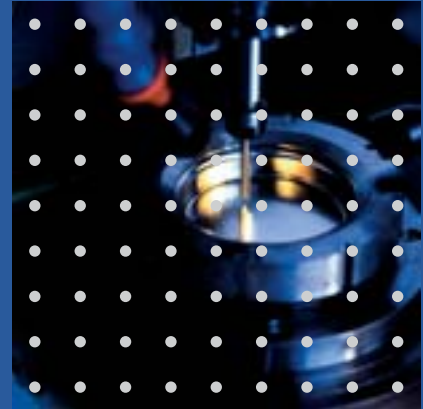
In CHF million
(previous year's figures in brackets)

Strategic Group report

Clearly defined development and growth strategies based on the Group's focus on chemical and synthetics technology have been drawn up for both divisions. Several important steps were taken in this direction last year. Today, Gurit clearly leads the market or is at the forefront of technological advance in many market segments and selected applications. During the year under review the Group posted a significant increase in profit but a number of negative occurrences and unforeseeable developments meant that earnings failed to live up to expectations. However, with its existing technology and expertise behind it, the Group's potential for growth remains intact and very high.

In recent years the Gurit-Heberlein Group has geared itself strategically to the needs of the future-oriented chemical and synthetics technology sector. In the process, Gurit has consciously built on the existing expertise of Group companies in various industries and expanded them to their current size. Although no fewer than 13 new companies or operations have been acquired or newly founded in the past three years, the Group's realignment was an organic process with a great deal of internal support. The Group's decentralized management structure has facilitated expansion of Industrial Applications and Health Care, together with each of both divisions' two respective markets. The transformation and integration process remained manageable and controllable every step of the way.

Gurit is ideally positioned for a successful future. Firstly, the Group is a leading player in its chosen markets and, secondly, it has a broad and well-documented technology basis in several specific areas. Gurit is aiming for technological and market dominance as an innovative



“Innovative solutions and close cooperation with the customer secure successful positions.”



Strategic Group report

systems supplier in four clearly defined sectors: Gurit Composite Technologies, Gurit Fiber Technology, Gurit Medical Business and Gurit Dental Care. Effectively, this means that the task Gurit sets itself does not end with the manufacture of semi-finished goods and products but also consciously includes R&D, engineering, application technology and close cooperation with the customer.

Acquisition phase virtually complete

Gurit-Heberlein adopts a conceptual strategic approach. Indeed, one of the Group's important maxims is "Thinking in concepts". The Board of Directors and Group Management have defined clear development and growth strategies for the four target market based on the Group's express strategic thrust. The core elements of this thrust are identical for all four sectors:

- support on a broad basis of technology and expertise
- conceptual system thinking
- the aim for technological and market leadership

Essentially, the Group's new industrial direction has been put into place. At the end of last year, Gurit had some 2300 employees worldwide and, with this kind of scale, now has an excellent basis for organic growth. This is not to exclude the possibility of small-scale acquisitions in the future. The Group is continually weighing up the possibilities of external growth, particularly if a company or specific operations would fit in with Gurit's strategic planning and strengthen its position. With this in mind, another three new acquisitions were made – or largely finalized – during the year under review. This, together with the fact that companies acquired in 2003 figure for the first time in full in the company's accounts, means that any direct comparison of last year's figures with previous ones is only of limited value. This notwithstanding, they provide a good idea of the Group's potential. Changes in the Group's structure are explained in detail in the individual divisional reports.

Marked leap in sales

Taking the Group as a whole, Gurit posted a 30% increase in sales to CHF 508.4 million in 2003. Of this figure, an important part can be attributed to changes in the companies consolidated or to the first full year's consolidation in the case of some Group members.

A weaker dollar was one of the main reasons why sales posted by the Health Care Division fell from CHF 207.1 million the previous year to CHF 203.1 million. At the same



time, the Industrial Applications Division reported a significant leap in sales from CHF 179.6 million the previous year to CHF 300.9 million for 2003. There has thus been a clear shift in the relative weighting of the two divisions towards industry, which now accounts for some 59.2% of sales. With important sections of the division now focusing on extremely dynamic growth markets, this sector will almost certainly have higher growth potential in the future. Astonishing growth rates were posted for certain market segments during the year under review. Sales to manufacturers of large-scale wind energy plants, for instance, rose by more than 20% in value terms and those to the aviation industry by 18% in volume.

After a highly successful previous year, the Health Care Division's contribution to EBITDA fell back markedly owing to the cumulative effects of several negative occurrences and unexpected developments in both its fields of activity. In stark contrast, Industrial Applications followed a difficult previous year with a disproportionate increase in its contribution to EBITDA. Across the Group as a whole, EBITDA rose by 18.7% to CHF 65.3 million, translating – after depreciation and amortization of goodwill – into a 3.2% higher EBIT of CHF 31.2 million. Gurit thus failed to achieve its targets, but in view of the difficult economic circumstances and several extraordinary occurrences this result was at least just about satisfactory.

Weak dollar leaves its mark

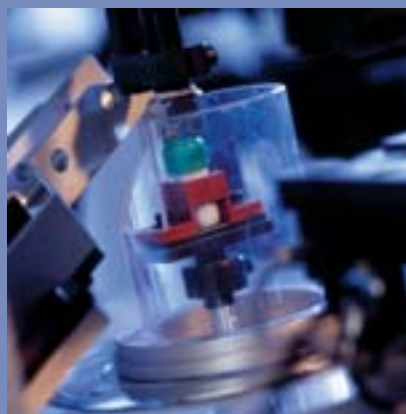
In both divisions the US dollar's unexpected weakness did not pass unnoticed. A major part of the Group's dental business is conducted in the dollar area. In the Industrial Applications Division, virtually all aviation and space travel operations are invoiced in dollars. During the year under review, the greenback lost about 11% of its value against the Swiss franc.

Unexpected cumulation of problems

Apart from exchange-related effects, sales also suffered from an accumulation of negative developments which were either surprising in terms of sheer scale or completely unforeseeable. In Asia, for example, which is an important market for Gurit Fiber Technology, the SARS lung epidemic brought sales during the second and third quarters to a virtual standstill. Unexpected problems also arose in the medical sector, where an expansion of production and capacity discussed with customers proved to have been too optimistic and too early. At the same time, the costs involved in the organizational and geographical amalgamation of dental operations in North America and, to a lesser degree, in Europe, had been underestimated. These drains on Group resources are clearly of a temporary nature and should soon result in more efficiency.

Comfortable balance sheet ratios

The balance sheet remained solid. Even if the sum total of all the goodwill listed in the balance sheet, the value of which is undisputed, were set off against equity, the latter would still account for 45.3%. Shareholders' equity amounted to CHF 452.2 million at the end of the year. Reflecting the increased total of assets, the equity ratio fell from 67.6% last year to 63.7% this year.



Strategic Group report

Solid growth prospects

Gurit expects clear increases in sales and profitability in the future. The driving force for further growth is the solidly based industrial platform, which has been consolidated and is now geared to high-growth markets.

Gurit Composite Technologies has a comprehensive technology basis that has made it the leading materials supplier for numerous areas of application in its markets. Wind power has proved itself to be a competitively priced form of renewable energy and will be pushed strongly in the future. Merely to achieve the EU's target of drawing 10% of its energy from renewable sources by 2010 means that growth rates in this area will be over 20% in the years ahead. The signs are also set for growth in other composite markets.

Gurit Fiber Technology and its technologically advanced key components today cover practically the entire value-added chain in the fiber industry from extruders to bobbins. The speed and significance of the sector's innovative thrust combined with its worldwide marketing have secured this position for a long time to come.

Gurit Medical Business has made good use of its multi-technology solutions approach to establish itself as an important manufacturer and development/production partner for plastic products used in medical, diagnostic and pharmaceutical operations.

Gurit Dental Care is a one-stop shop offering a full range of dental treatment products and has a reputation as a precursor in aesthetic dental restorations. It has an extensive worldwide distribution network.

In addition to these advantages, expansion generates other benefits such as synergetic effects and economies of scale, flexible production capacities as well as more efficient distribution structures, greater innovative strength and, last but not least, the improved ability to open up new markets. All these factors will contribute to future growth in sales and profitability.

High innovative strength

In the course of the past year, Gurit invested significant sums in research and development in all divisions. For customers, genuine innovations represent answers to open questions and Gurit-Heberlein Group companies launched numerous new developments on the mar-

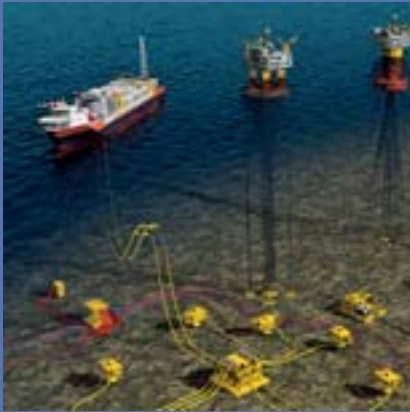


ket. Across the entire Group, a good 3% of sales was invested in research and development. Other significant investments in fixed assets during the year under review applied mainly to property, plant and equipment amounting to CHF 41.8 million.

Of top priority in 2003 was the amalgamation of traditional activities with those new to the Group. Significant milestones in this process are described in greater detail in the individual division reports.

At Group level, operative and organizational integration as well as the internal transfer of know-how were all important but special attention was given to making Gurit-Heberlein's new structure and strategy transparent and understandable for everyone involved internally and externally. The wait-and-see attitude adopted by parts of the financial world towards the Group when its new direction was introduced has since given way to a genuine and profound interest. Gurit-Heberlein AG stock is the subject of regular comment by numerous financial analysts.

The new financial year has begun quite successfully and there is an unmistakeable, if restrained, sense of economic recovery in some areas in the air. However, customers in many markets have drastically reduced their order cycles and the resulting lack of transparency has made it difficult to produce any reliable assessment of the future. If the economic recovery should prove sustainable, Gurit could well post sales in the region of CHF 600 million and a respective earnings increase during the current year.



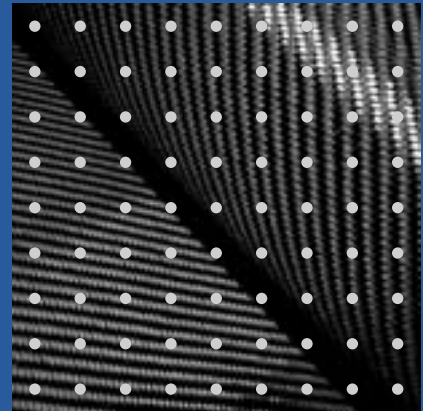
Industrial Applications

In 2003 the Industrial Applications Division posted sales of CHF 300.9 million, a 68% increase. This was the first full year's consolidation for acquisitions made in 2002. New acquisitions were made in both sectors – Gurit Composite Technologies and Gurit Fiber Technology – and Gurit further consolidated its position as a leading market player and technological innovator. Profitability will be further improved by integrating production facilities and coordinating procurement, development and marketing activities. After an unsatisfactory result in the previous year, operating profit rose to CHF 19.1 million but with an EBIT margin of 6.4% failed to reach the 10% targeted.

Gurit Composite Technologies is one of the leading international suppliers in the rapidly expanding advanced composites market. Compared with the 2002, sales in this sector almost doubled. The lion's share of this can be attributed to UK-based SP Systems, which was fully consolidated for the first time last year. The amalgamation of the companies acquired during the past two years has substantially strengthened the technological and production basis and generated a high level of regard in our target markets.

Using synergies for growth

Project groups made up of representatives from several Group companies work closely to develop new products and open up new markets. The level of coordination now possible across the entire Group has also opened up new synergies in the purchasing of raw materials and in capacity utilization, which will be used more effectively and selectively in the future. Since late summer, some production runs successfully at affiliated companies. In the course of 2003, newly completed factories, completely reorganized production processes or extended



“The Group will remain
on course for growth
in the years ahead.”



Industrial Applications

facilities went on stream in Spain, Germany, and Switzerland.

Opening up the North American market

Following the takeover of the assets of ATC Chemicals in Canada in the summer of 2003, Gurit now has its own structural core production facilities. This plant will provide a basis for Gurit Composite Technologies to make significant progress in this region. The addition of Core-Cell® to the broad product range further strengthens the Group's position as a strategic supply partner to major wind energy customers, and offers tangible benefits over incumbent core suppliers.

Strong position in the wind power market

A process of international consolidation is beginning to take place in the wind power systems sector. Several smaller producers have already exited the market while the merger between the industry leader Vestas and the number three, NEG Micon, will likely have an effect on other large-scale manufacturers. These changes have also brought new challenges for suppliers. Factors such as the ability to guarantee capacity as and when required, mutually compatible product systems, contractually agreed, long-term delivery conditions and the cross-border procurement channels preferred by some companies call for a certain minimum scale.

Gurit meets all these criteria and has cemented its position by broadening its supply base through increased plant qualification and new products. Apart from this, Gurit Composite Technologies is also benefiting from a clear trend towards the use of carbon preregs in the manufacture of wind generators. This is a technology which the Group's British subsidiary, SP, has been using in its marine business for years. Today, four of the world's five leading manufacturers of wind power systems obtain a wide range of pre-impregnated preregs, structural core, bonding systems, infusion resins and gel coats from SP. In addition to this, application technicians work closely with customers on their development work.

According to estimates within the industry, growth rates in the wind energy market will remain well double digit in the years ahead. The EU's target alone, which involves obtaining 10% of its power from renewable sources by 2010, implies growth of at least 20%. These sustained levels of growth are guaranteed at political level by

official government programs to strengthen the use of alternative energy sources.

High-tech materials in one-off and production boats

SP Systems has given Gurit a prominent position in boat and shipbuilding. Many of the high performance yachts taking part in the Volvo Ocean Race or the America's Cup use SP materials and technology in their hull, deck and spar structures. 2003 saw the launch of Mari Cha IV, a one-off race yacht, which was engineered by SP, and which impressively set a new transatlantic record in December. While there were very few large-scale build programs during 2003, due to a gap in the "grand prix" sailing schedule, Gurit Composite Technologies' marine business grew. One of the reasons for growth in this sector is the increasing use of high-performance materials, formerly considered expensive and high-tech, in the construction of top series-produced yachts. The Shipman 50, for instance, which took the 2003 European Yacht of the Year award, is manufactured using SP's tough, lightweight material SPRINT®.

Aviation business remains surprisingly stable

Despite the sagging economy and the crisis of the airline business, demand from the aviation and space flight industries for components has remained encouragingly stable. The decisive factor here was the market success of the European Airbus consortium, which has outstripped the American competition. Compared with earlier models, the new aircraft use significantly higher proportions of composites. The interior of the wide-bodied, double-decker A380 from Airbus, which is due for delivery in 2006, requires 18 times the amount of composites as a single-aisle aircraft.

With these developments in mind, the Stesalit subsidiary has considerably expanded its capacity at its production facility in Kassel, Germany, where testing of materials for use in the A380 is currently under way. The Group's status as a single-source supplier of certain materials used in aircraft interiors together with the long-term time frame of supply agreements for existing and new models play a major role in securing future sales.

Although Gurit Composite Technologies mainly supplies the European aviation and space flight industries, it

still felt the effects of a weak dollar. This is because also European aerospace transactions are traditionally conducted in US dollars.

A glimpse of distant worlds

In the course of 2003, the so called APEX radio telescope antenna was erected in the Chilean Atacama desert. The Atacama *Pathfinder EX*periment serves as pathfinder installation for the ALMA astronomy project. The material used in the 24 girder sections, on which the mirrors are mounted, is produced by Gurit. Night and day-time temperatures in the Andes fluctuate widely, so the extreme precision required by the project posed a very special kind of challenge. ALMA, jointly financed by Europe and North America, is the largest land-based astronomy project foreseen for the next decade. 64 antennae, all working in the millimetre and submillimetre-wavelength bands, will one day form a single astronomic instrument that will make signals from the optically dark area of the universe "visible".

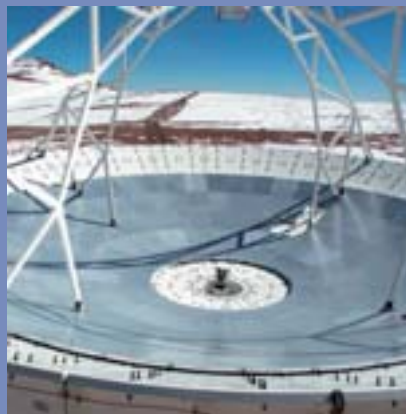
Working on the cars of tomorrow

In 2003, several top-bracket cars, such as the Ferrari Enzo, Porsche Carrera GT, Mercedes McLaren SLR and Lamborghini Murcielago, had their European roll-outs. Supercars like these have a pioneering role to play in automotive construction as they trial new materials and technologies, such as composites, which may eventually be used in larger scale production runs. However, the trend for performance variants of higher volume cars can already be seen, and the technology opportunity is to supply the materials used in the latest supercars to a wider base of manufacturers, who may produce up to 2000 cars of a particular model.

Gurit Composite Technologies strategically values its relationships with automotive OEMs, and is working on a number of qualification programs, the first complete one of which is a program of 3500 cars. A firm relationship has been established with MG Sport & Racing, who use SPRINT® material and technology for its XPower range, and a contract has been signed by SP to supply materials for the first 1000 cars.

Opening up other markets

Advanced composites are currently replacing metals in engineering, construction or oil production because they help reduce weight and open up virtually unlimited design opportunities. Cooperation with Sika in the field



Industrial Applications

of reinforcement straps used in the reinforcement or renovation of large constructions such as bridges or wide-span ceilings has led to an increase in sales, and further progress has been made on a number of promising projects in the oil and gas production industries.

Nowadays, new, tappable oil deposits are found further and further out at sea. With conventional steel tubing, it is not possible to go down to depths of up to three kilometres from a floating platform, which is why drastic weight reductions are needed here, too. The main requirement in this industry is for risers made of thermoplastic composites, through which the oil can be pumped from the sea bed to platforms or tankers. Composite materials lend themselves to the production of pipes that can be wound and unwound as needed, go down to enormous depths, withstand temperatures of up to 300°C and even have wider diameters than steel pipes.

Winter sports in the consumer trap

The winter sports business remains difficult. In the market, there are considerable overcapacities. The big snow-board and carving ski boom is over, with many consumers having been forced to cut their spending on leisure time and sporting activities. Skiing is a traditional sport and has been exposed to increasing competition from a continuous stream of newer sport activities. Estimates in the industry now suggest that one skier in five – or even four – prefers to rent his skis today than buy them. Thanks to a tough cost management Gurit Composite Technologies was able to successfully maintain its position in this market.

A complete product range for the multi-stage fiber industry

Sales in the Gurit Fiber Technology Division grew solidly, not least thanks to the acquisition of German competitor Wetzel, Gröbzig. Despite the present difficulty of the economic climate, this area has lost none of its long-term attraction and was resolutely expanded. Further growth in the fiber technology sector was achieved with the acquisition of Wetzel, Gröbzig, effective in October 2003, the foundation of a Group-owned subsidiary in the polymer filtration sector and the conclusion of takeover negotiations for Swiss-based Electrotex with effect from January 1, 2004. Integration of Wetzel has made Enka tecnica the world's top producer of standard-size and large spinnerets; in other words, the components used for the melt spinning of polymers.

The foundation of a subsidiary, Enka tecnica Filtration marked the Group's entry in the polymer filtration stage of the production process.

From the beginning of 2004, the Group consolidated and increased its expertise in the monitoring of spinning and texturing processes with the takeover of Swiss-based Electrotex. As a result of these technological advances, Gurit Fiber Technology now supplies industry-leading key components at the forefront of the market for every value-added stage in synthetic yarn production.



Market shifts towards Asia

Gurit Fiber Technology's main market has seen a further shift towards Asia and the distribution network in the region has been expanded. During the first half of the year, China in particular invested in new spinning mills and texturing machines. In the spinning sector the main success has been spinpacks for bicomponent yarns. These permit special properties of different types of polymers to be combined directly in the spinning process.

Sales in America and Europe have been generally hesitant. Towards mid-year, business in Asia likewise hit a poor patch, and in the wake of the SARS crisis and the weakness in the dollar, business ground to a virtual halt. A certain reluctance to invest in new equipment was probably also due to the ITMA textile machinery fair, which is held every four years. Before placing new orders, buyers tend to wait to see what innovations are presented at ITMA.

At the ITMA fair Gurit Fiber Technology had another opportunity to demonstrate its innovative strength and technological prowess. No fewer than twelve new or significantly upgraded products were unveiled to the public. Heberlein, for instance, presented an innovative jet concept with a rotating jet core for use in Taslan® air texturing which in some cases has trebled running time between cleaning cycles. Another world-first came in the form of the first two-piece ceramic jet core, which is much cheaper to manufacture and translates into significantly lower prices for the customer. Sophisticated technical improvements (key operated jet plate change, bayonet socket in place of the screw-in type) have also increased user-friendliness and consolidated the leading market position of traditionally successful models such as the SlideJet™ and HemaJet® air texturing jet.

Enka tecnica also presented its new process sensors Fraytec MV and ET Tangletec and a new polymer filtration system.

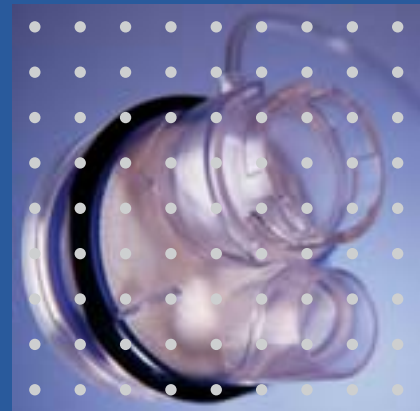


Health Care

The Health Care Division closed the year with a 2% decrease in sales to CHF 203.1 million. This meant that both the dental and medical sectors failed to meet expectations. After a run of extremely successful years, several negative, exceptional factors brought the Division's contribution to the Group result down drastically. Regardless of this, however, the companies were able to consolidate their market positions and look toward the future with confidence.

After the acquisitions of recent years, made with expansion in mind, the main focus in the Gurit Dental Care sector was on integrating all activities in new, forward-looking organizational and market structures. Companies have been regrouped, both in Europe and in North America. In Europe, production, distribution and management of the German and Swiss operations have been brought together under joint, lean management in two locations: in Switzerland these are Altstätten and nearby Rüthi, and in Germany Langenau. This has eliminated duplication of certain activities but has also facilitated cooperation in other important areas such as research and development or certain staff functions.

Underestimated side-effects of the move
In terms of geographical integration Gurit Dental Care went even a step further in North America. Here, all existing production facilities were brought together under a single roof in Akron, Ohio. Apart from its facilities in Mahwah, New Jersey, and Ivyland, Pennsylvania, Coltène/Whaledent had been running an operation in this area for several years at Tallmadge, Ohio. While the construction of the new manufacturing and logistics facilities went ahead as planned, the recruitment of suitable staff and the seamless transfer of production know-how created problems on a much greater scale. Ultimately – despite the Americans' reputation for mobility – fewer



“Strengthening international positions creates the foundations for future success.”



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employees were prepared to move to Akron than initially assumed and individuals with crucial know-how had to be given additional incentives to move. Passing on the necessary expertise to a total of 250 new employees posed the company unexpected problems. New members of staff had to be trained on the job by those leaving the company, either at the old location or at the new one, which temporarily led to expensive duplication of jobs, production downtime and additional operating costs not only on the first half but also for the second half of 2003. These teething troubles have been surmounted and from now on Gurit Dental Care will start to profit from the increased efficiency made possible by the modern infrastructure in Akron.

In connection with the move to the US and reorganization in Europe, distribution structures also underwent change. From now on, trading partners on both sides of the Atlantic can take advantage of a full range of products manufactured either in Europe or America and delivered from central depots in each of the two regions. The fact that the entire range of dental treatment needs is now covered by products from the Coltène/Whaledent Group manifests itself in distribution. The all-inclusive approach is reflected in a newly designed catalogue, valid worldwide, which organizes products in terms of symptoms and treatments for different customer groups, such as dental surgeons, dental laboratories and trading partners.

Sales documentation apart, Coltène/Whaledent is also opening up new paths in other areas. As a pioneer in the field of aesthetic dentistry, the company has consciously adopted the role of active knowledge broker. At the end of 2002, a first international symposium addressing trends in modern dentistry, and organized entirely by the company, was a big success and had a positive effect on customer relations in the year under review. The second event in the series is to be held in the spring of this year and, like the first one, will feature a number of top-ranking international speakers.

Economy slows sales

The economic situation during the year under review in both of the dental sector's main markets, the US and Germany, was hardly encouraging. In the US, the process of axing traditional forms of employment, uninterrupted for almost two years now, was reflected in falling demand for dental treatment. In the past, jobs in industry have



usually come with generous health insurance packages; these are virtually unknown in the low-entry-threshold jobs currently being created in the service industry. On balance, insurance coverage for dental treatment in the US has worsened noticeably, with the result that certain treatments are now either being postponed or reduced to the medically acceptable minimum. In South America the difficult economic situation pushed sales in the dental sector of certain important national markets down considerably. To cap it all, the weakness of the dollar had another negative effect on sales.

In Germany, the effects of health reforms that are now being implemented and generally cautious consumer sentiment depressed market growth. Reduced state insurance coverage in the health sector in Germany is one of the main reasons for stagnation in the market. From now on only basic treatments will be covered by patients' health insurance; those requiring anything more elaborate increasingly have to pay for it themselves. While sales in Germany remained at just about the same level as the previous year, Coltène/Whaledent chalked up successes and acquired new market shares in the rest of western Europe, in southern and eastern Europe and, last but not least, in several non-European export markets.

Further expansion for Gurit Medical Business

Gurit Medical Business was unable to repeat its success of the previous year, with both sales and earnings falling below expectations. This disappointing result was due firstly to depressed economic growth and secondly to unrelenting pressure on costs in the health services. Apart from these two factors, several exceptional events also took their toll on results.

Sales of the respiratory products manufactured and distributed under the company's own Medisize brand progressed well and market shares in Europe were increased. Operations in the US were also very satisfactory: the company's American distributor, King Systems, made first-time sales of the Medisize product range to numerous hospitals and pushed up sales impressively in the process.

In addition, the international production and distribution rights for the HME Booster® previously manufactured under licence, are now owned by Medisize. This means that Medisize will now be able to extend a range of convenience models that are unique on the market. Last but not least, the manufacture of particularly labour-intensive products in the Czech Republic began running smoothly during the year under review.

Using distribution synergies

A main focus of attention in 2003 was the strengthening of the Group's distribution activities, with the emphasis, of course, on its own respiratory products in Europe. Gurit Medical Business rounds off its own range with other selected products. Such wide coverage of the market is proving to be an increasingly important argument in the finalization of new distribution agreements. New additions to the trading companies' range in 2003 included special products for non-invasive respiratory technology, thorax drainage and neurosurgery. In Germany and the Benelux pressure on health care budgets increased noticeably during the last few months of the year, with the result that inventory replenishment, which is a traditional way of using up any remaining budget before year-end, was practically non-existent.

The OEM medical products sector remained stubbornly below budget. Apart from the general economic malaise, price wars, consolidation and legal complications affecting customers delayed or obstructed a number of individual



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products. In the medical sector, the implementation of a project from the original idea, through test phases and all the way to launch, generally takes up to two years and more. Whether and how quickly new projects will actually result in series production always involves a degree of uncertainty. In the case of one major customer, for example, capacity was expanded and scheduled in the course of 2002 but was then only partially used during the year under review. The customer was unable to launch a new product, for which Medisize was supplying important components, as quickly as planned, with the result that orders were reduced and existing stocks at the client first had to be used up. Cooperation with other major customers, on the other hand, went according to plan. The ongoing weakness of the dollar turned out to be disadvantageous for developments in the OEM disposable medical products sector, with margins on products sold in the US coming under significant pressure.

Medisize managed to finalize new production agreements with several well-known customers. The company will in future be manufacturing special catheters for cancer treatment under strict clean room conditions. Nucletron, a member of the Dutch Delft Instruments Group, specializes in cancer therapy and is the world's most important supplier of the afterloading brachytherapy systems used in radiation therapy. Brachytherapy is designed to target and treat tumours directly in the body using minimal dose rates. The catheters manufactured by Medisize are used for the interstitial radiation treatment of breast cancer. Depending on the size of the tumour, up to 36 catheters are positioned in the breast to be treated. One of these catheters, both of whose buttons lie on the outer surface of the breast, can be seen at the centre of the illustration opposite. During radiation treatment hollow needles (also shown in the illustration) are fed into these catheters and enable tiny radiation sources to be conducted from an afterloading system to the tumour requiring treatment. Unlike earlier therapies with external radiation sources, which take anything from five to seven weeks, brachytherapy reduces the duration of treatment to five days. Women receiving therapy are treated as out-patients and keep the non-irritating catheter in the breast throughout. Their everyday lives are scarcely affected. Medisize and Nucletron cooperated closely on the development of the COMFORT® Catheter System, which has already received FDA approval. Medisize's contribution to the de-



velopment was largely related to materials, plant and packaging issues but also extended to process development and the ensuing validation. Among other things, manufacture of the catheter system calls for a knowledge of injection moulding, deep-drawing, assembly and packaging.

Extending the technology basis

Gurit Medical Business also made significant progress on organization and production technology-related matters. The manufacturing facilities were amalgamated in a single management structure and clearly divided into two fields of activity: Airway Management (respiratory products) and Development & Manufacturing. Towards the end of the year, both sectors received the benefit of a further production technology: liquid injection moulding (LIM) is similar to thermoplastic injection moulding but is used for the processing of silicone rubber. The new production machines have been installed in the factories in Ireland and the Czech Republic and are used both in the manufacture of respiratory products and OEM operations. In the respiratory products segment, for instance, the LIM process is ideal for the manufacture of the bags used for respiratory training during recuperation as well as for the physical increase of lung capacity in sports training.

Medisize also uses the LIM process to manufacture special liquid silicone tips for the PickPen instruments manufactured by the Finnish company Bio-Nobile OY. These instruments are used in biotechnology to clean and separate cell components like nucleic acid and special proteins. Instead of keeping the required particles in place magnetically and removing the residual liquid by suction, the magnetic PickPens are able to lift the particles directly out of the cellular solution.

Absolute cleanliness is essential and a sterile silicone tip is used for each multi-stage separation process. Medisize supported Bio-Nobile with the development and validation of the new silicone tips and now manufactures them under strict cleanroom conditions.

