

ANNUAL REPORT 2003



Compagnie Financière Tradition

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## Chairman's message

This past year was marked by a particularly contrasted market environment. Strong volatility and sustained upward and downward trends buoyed the currency and precious metals markets, while the money and energy markets remained generally lethargic. The year was also characterised by intensified competition and an increase in the strategic stakes in the interdealer broking sector of the world's OTC markets.

The objectives that Compagnie Financière Tradition set itself for 2003 have been largely achieved. Its goal of reaching an organic growth rate of at least 5% a year was fulfilled. Thanks to its broad geographic footprint and its expertise in an extensive range of market sectors, turnover for the period reached CHF 786.1 million, up 7.1% at constant exchange rates.

Its second objective, to improve the Group's operational profitability, was achieved through rigorous control of direct costs, and operating profit rose to CHF 61.1 million from CHF 54.4 million in 2002. At constant exchange rates and excluding insurance payments relating to September 11 events, this represents a 37.0% growth in operating profit and a 1.6 point rise in operating margin, which reached 7.7% of turnover compared with 6.1% in 2002.

Finally, the Company introduced a programme to take over minority interests, which has significantly reduced their weight on the balance sheet, with their share of consolidated net profit dropping from 20.4% in 2002 to 11.6% in 2003.

Group share of net profit grew 20.6%, to CHF 38.4 million, compared with CHF 31.8 million in 2002, for a return on shareholders' equity of 19.6% in 2003. With consolidated shareholders' equity of CHF 223.7 million, CHF 202.4 million of which is Group share, and a cash position and marketable securities net of financial debts of CHF 163.4 million at 31 December 2003, Compagnie Financière Tradition remains one of the most financially solid companies in its sector.

In light of the Group's strong performance and in keeping with its progressive dividend policy introduced seven years ago, the Directors will be seeking shareholder approval for a dividend of CHF 5.00 a share in 2003. This increase of 25.0% over the previous year represents a distribution rate of more than 70% of net profit - Group share, in 2003.

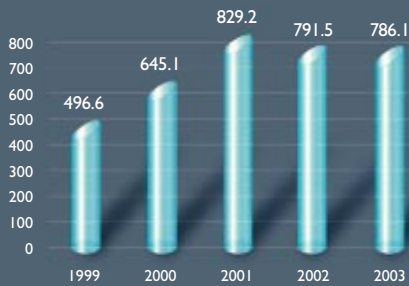
We would like to take this opportunity to thank all our shareholders for their continued confidence, and our teams for their loyalty and contribution to the Company's success.

Patrick COMBES

# Key figures

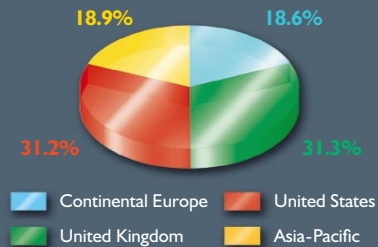
Turnover was CHF 786.1 million in 2003, a year-on-year rise of 7.1% at constant exchange rates and an annual average **growth of over 15% in five years**, some 75% of which was generated in the world's three major financial centres: **London, New York and Tokyo...**

**Consolidated turnover**  
in millions of Swiss francs

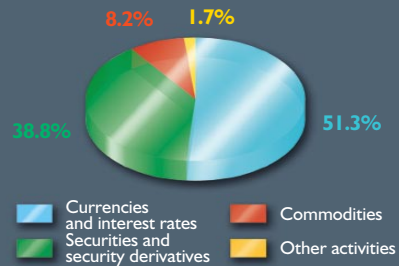


5-year CAGR: **15.4%**  
5-year CAGR at constant exchange rates: **16.7%**

**2003 consolidated turnover**  
by geographic area

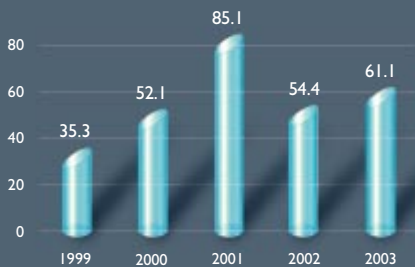


**2003 consolidated turnover**  
by product



... and five-year results strongly ahead, with **Group share of net profit up by an average of 32.0% a year**, reflected in a **fivefold increase in dividends over 5 years...**

**Consolidated operating profit**  
in millions of Swiss francs



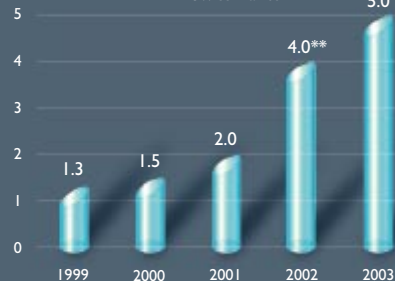
5-year CAGR: **23.5%**

**Net profit - Group share**  
in millions of Swiss francs



5-year CAGR: **32.0%**

**Dividend per share\***  
in Swiss francs

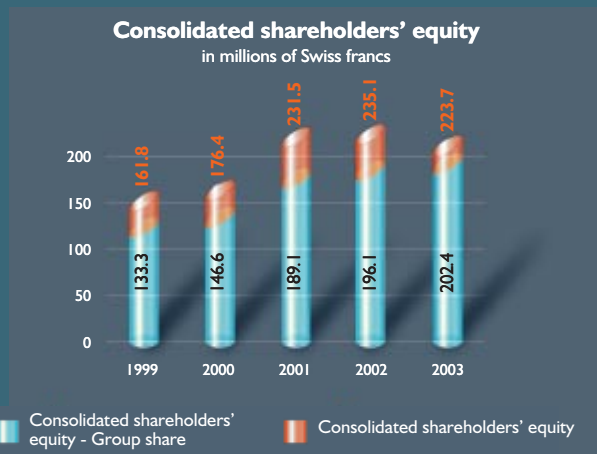


\* Based on a share with a nominal value of CHF 2.50

\*\* CHF 4.00 cash dividend per share with a nominal value of CHF 2.50 plus one bonus share for every 25 shares held.

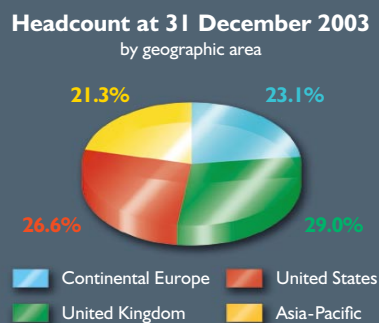
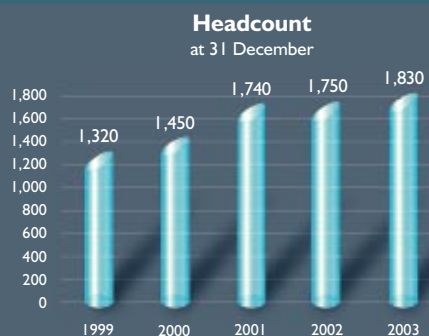
## Key figures

...and a rock-solid balance sheet, with **consolidated shareholders' equity of CHF 223.7 million** at end-2003.



Consolidated shareholders' equity / total assets: **43.7%**  
 Return on consolidated shareholders' equity in 2003: **19.6%**

Compagnie Financière Tradition covers three time zones, with a presence in **sixteen countries**, and a global staff of **1,830 people** at end-2003, 75% of who were brokers.



# Information for shareholders

Compagnie Financière Tradition's shares rose by 70.3% over the period, ending the year at CHF 117.5 and valuing the Company at CHF 634.7 million at 31 December 2003. This performance represents an annualised growth of more than 50% over the past five years.

## Share performance and shareholder value

The share started the year at CHF 69.0 but gave ground in the first quarter, hitting a low of CHF 43.7 on 13 February 2003. With the nascent return of investor confidence to the stock markets and the announcement of a strong set of first half results, the shares rebounded, ending the year at CHF 117.5, **for a year on year rise of 70.3%**. This compares with an increase of 18.5% for the Swiss Market Index during the same period.

Over the past five years, the Company's share price has risen almost eightfold, for an annualised growth of 50.9%. During the same period, the SMI registered negative growth of -5.2%. In concrete term this means that a shareholder who invested CHF 1,500 on 1 January 1999 would have accumulated a capital of CHF 14,267 at 31 December 2003, assuming that all dividends received over the period were reinvested in Compagnie Financière Tradition shares. This represents an **annualised rate of return of 56.9% over five years**.

## Stock market data

	2003	2002
Number of shares at 31 December	5,401,369	5,304,700
Market capitalisation at 31 December	CHF 634,661,000	CHF 366,024,000
Highest price	CHF 126.0	CHF 107.5
Lowest price	CHF 43.7	CHF 42.7
Closing price at year-end	CHF 117.5	CHF 69.0
Average daily volume	2,423	3,209
PER* at 31 December	16.6	11.5
Operating profit per share**	CHF 11.5	CHF 10.3
Net profit - Group share per share**	CHF 7.2	CHF 6.0
Dividend per share	CHF 5.0	CHF 4.0***

\* Price Earnings Ratio.

\*\* Based on the weighted average number of shares outstanding during the period.

\*\*\* First dividend of CHF 3.0 per share plus distribution of one bonus share for every 50 shares held.

Second dividend of CHF 1.0 per share plus distribution of one bonus share for every 50 shares held, following approval by the Extraordinary General Meeting of 8 September 2003.

## Fact file

- Financial year: 1 January to 31 December
- ISIN Code: CH0014345117
- Unit of trade: 1 share
- Nominal value: CHF 2.50
- Traded on the Swiss Stock Exchange and on the third compartment of the Frankfurt Stock Exchange.

## Your contacts

### General Enquiries

#### IR Department

Compagnie Financière Tradition  
11, rue de Langallerie  
CH - 1003 Lausanne

T.: 41 (0)21 343 52 66 • F.: 41 (0)21 343 55 00

### Internet

[www.traditiongroup.com](http://www.traditiongroup.com)

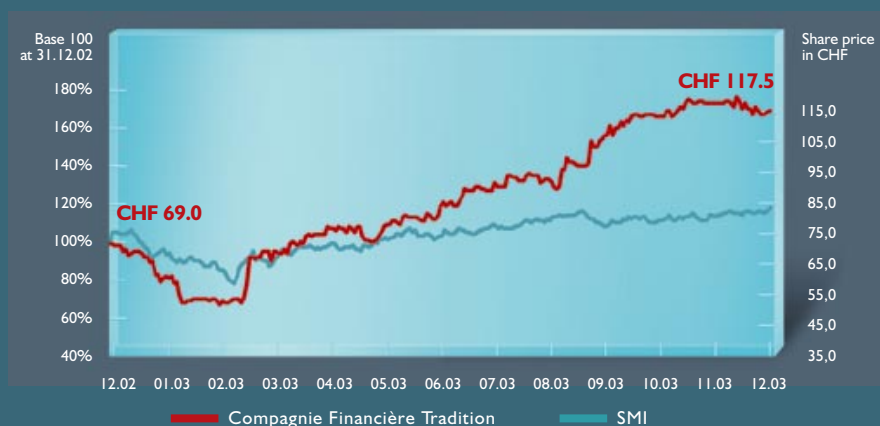
A dedicated communication platform for Compagnie Financière Tradition's shareholders:

- Share price
- Key figures
- Calendar of events
- Press releases
- Presentations

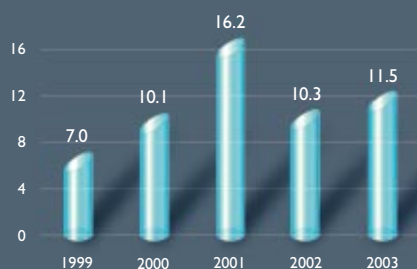
E-mail: [ir@tradition.ch](mailto:ir@tradition.ch)

## Information for shareholders

### Share performance compared to the SMI in 2003

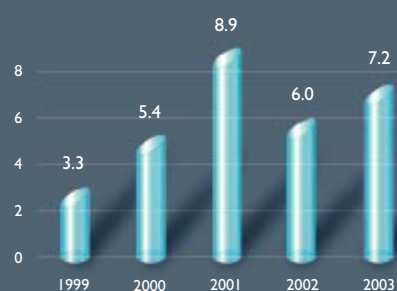


### Consolidated operating profit per share\* in Swiss francs



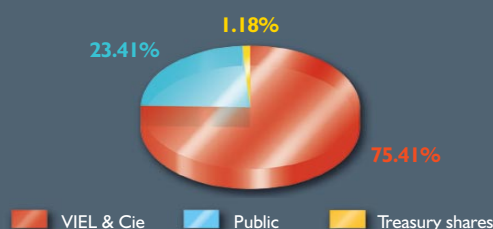
\* Based on weighted average number of shares of CHF 2.50 nominal value during the year.

### Net profit - Group share per share\* in Swiss francs



\* Based on weighted average number of shares of CHF 2.50 nominal value during the year.

### Distribution of capital at 31 December 2003



## 2004 calendar

4 February: Publication of consolidated turnover for the year 2003

11 March: Publication of consolidated results for the year 2003

5 May: Publication of consolidated turnover for the first quarter of 2004

11 May: Annual General Meeting

4 August: Publication of consolidated turnover for the first half of 2004

15 September: Publication of consolidated results for the first half of 2004

3 November: Publication of consolidated turnover for the third quarter of 2004

Our investor relations calendar is updated regularly, and is available on [www.traditiongroup.com](http://www.traditiongroup.com).



# Compagnie Financière Tradition is a leading broker in the world's financial and non-financial markets.

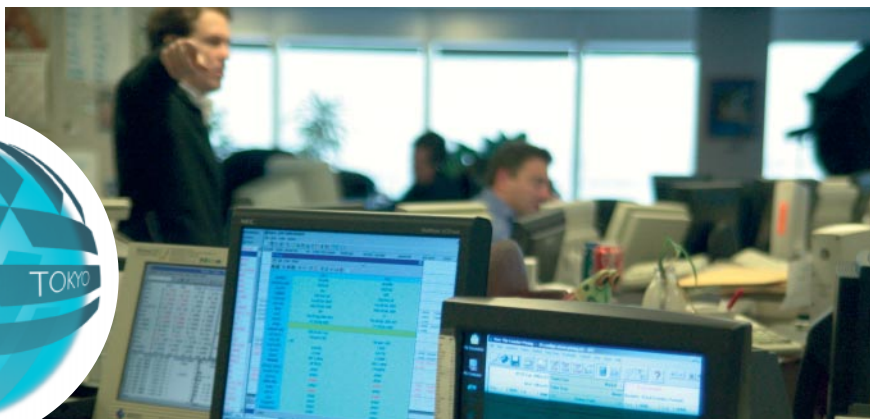
Every day, financial institutions - banks, insurance companies, mutual funds, etc. - as well as multinational corporations, trade in the forex, interest rate, securities, energy, commodity and precious metals markets. They buy and sell financial instruments, for the most part over-the-counter, in order to manage their cash flow needs, take trading positions, or hedge against the risks of currency fluctuations.

Compagnie Financière Tradition operates at the heart of these markets, organising liquidity for the participants, essentially through the use of hybrid instruments. As a broker, its role is neutral and independent, similar to that of a marketplace. It provides clients with crucial information, executes their transactions, offers access to a broad portfolio of counterparts and ensures the most efficient conditions for completing their trades. Experience, a comprehensive network of clients and a precise understanding of their objectives are key to quality service.

OTC brokerage is a very dynamic sector within the financial services industry. It takes advantage of the increasing volume and number of transactions generated by financial innovation, the sophistication of risk coverage techniques, the development of arbitrage activities, the growing number of customers accessing these markets, and increased market volatility. Operating across borders and across time zones, 24 hours a day, Compagnie Financière Tradition is the world's No.3 player in this sector, which has been consolidating around a few dominant international groups since the end of the nineties.



## Compagnie Financière Tradition's business



# Global

Compagnie Financière Tradition covers three time zones and a vast number of market segments.

Compagnie Financière Tradition has developed a comprehensive range of brokerage services worldwide, giving it critical mass in supply and demand. Clients have access to the very best pool of trading liquidity for all transactions, from the simplest to the most complex.

The Group is present on five continents and in sixteen countries, and employs 1,830 people. In 2003, it realised more than 70% of its turnover from its operations in London, New York and Tokyo. With its international spread and diversified product portfolio, it is strategically positioned to take advantage of geographical development opportunities.

Compagnie Financière Tradition's product portfolio covers most over-the-counter instruments: money markets, interest rate and currency derivatives, bonds, credit derivatives, equity and index derivatives, as well as coal, oil, electricity, natural gas, pulp and paper, and freight derivatives. It also covers contracts in the main futures markets - Euronext Liffe, Eurex, CBOT, CME, etc. - as well as stocks quoted on the major equity markets such as the New York Stock Exchange, Euronext and Deutsche Börse.

Grassroots information about developments in new and existing products, as well as trends in market demand, are provided by the Group's expert local and international management teams.

From the outset, its drive to obtain critical mass, coupled with strict cost control, has ranked the Group among the world's top three companies in its sector, and as one of the best positioned players in the consolidation process that is taking place in the industry.

ARS-AUD-CAD-CHF-EUR-GBP-HKD-JPY-KRW-MXN-PLN-SGD-TRL-  
FORWARD - FRA - FFA - NDF - SWAP - OIS - OPTION - CAP - FLOOR - DEPOSIT - CD - REPOS - BOND -  
TWD-USD-ZAR-FRA-OIS-IRS-FXO-CD-REPOS-CDS-CDOs-NDF-FFA-EFP  
STOCK - CREDIT DEFAULT SWAP - CDOs - FUTURES - EFP

London / Frankfurt / Brussels / Luxembourg / Paris / Munich / Lausanne / Milan / Lisbon / Tel Aviv / Johannesburg / Stamford /  
New York / Los Angeles / Buenos Aires / Sydney / Beijing / Tokyo / Hong Kong / Singapore

## Compagnie Financière Tradition's business



# Expert

Compagnie Financière Tradition has a tradition of development and innovation.

Compagnie Financière Tradition's reputation is underpinned by two core values, which are reflected in the ethos of its teams: an entrepreneurial culture and an unwavering drive for expertise.

Milestones:

- 1959:** Company founded.
- 1973:** Made its début on the Stock Exchange, becoming one of the first brokers to be listed and the first brokerage group to build a development strategy on its own substantial equity.
- 1982:** Launched the forward rate agreement, an interest rate derivative product which was to become a benchmark in the financial markets.
- 1989:** Initiated the first OTC oil derivatives transactions in London, bringing the expertise and reputation it had acquired in interest rate derivatives during the eighties, to the non-financial markets.
- 1997:** First broker to open a representation office in China.
- 1998:** Invested in companies producing innovative technology such as streaming (with its subsidiary StreamingEdge.com Inc.) and providing online financial information (through Infotec, sold in 2002).
- 2002:** Set up the first hybrid voice/online broker in the currency market, when it merged its options operations with those of Volbroker, an electronic trading platform.

Compagnie Financière Tradition teams are present in segments at the cutting edge of today's markets: exotic currency options, inflation swaps, climate derivatives, structured products, credit derivatives on indexes and tranches, etc.

In recent years, the Group has diversified its services to cater to private investors. These include spread betting in England (Tradindex.com) and online forex broking in the spot markets, since 2002, in Japan (Gaitame.com) and, since 2003, in the U.S.A. (FXDD.com). It is also developing its activities as a financial information provider under the Tradition brand.

## CREDIT DEFAULT SWAP:

**A financial contract under which an agent buys protection against credit risk for a periodic fee in return for payment by the protection seller contingent on the occurrence of a credit default event.**

## FORWARD RATE AGREEMENT:

**A forward contract that specifies an interest rate to be paid on an obligation beginning on some future date.**

## FREIGHT FORWARD AGREEMENT:

**A forward agreement to purchase or sell future freight rates at a predetermined rate.**

## Compagnie Financière Tradition's business



# Leader

Compagnie Financière Tradition is a world leader in a dynamic market.

**Turnover generated by brokerage activities in OTC markets is estimated at over CHF 6 billion.** Compagnie Financière Tradition demonstrated its ability to anticipate developments in its operating environment: the exceptional growth in derivative products and the globalisation of markets since the early nineties, and more recently the increase in capital adequacy requirements and the integration of new technologies in transactional processes.

The Group is now one of the biggest brokerage networks in the OTC markets, by number of geographic situations. Globally, it is the world's No.3 player in terms of turnover across all product segments, and is in pole or second position in a number of instruments in its core derivatives business: medium-term interest rate swaps for about ten currencies, equity derivatives in Europe and the U.S.A., the most diversified portfolio of energy derivatives in the world, gold options, and currency options under the TFS-ICAP brand.

**Compagnie Financière Tradition's proven track record confirms the wisdom of its strategy, with turnover growing at an annualised rate of 15.4% between 1998 and 2003, and increasing more than threefold between 1996 and 2003.** During this same period, profit before tax and extraordinary items increased almost fortyfold and consolidated shareholders' equity more than twofold.

This dynamic growth has been reflected in the share price, which has racked up **an annualised growth of 50.9% between end-1998 and end-2003**, giving shareholders **an annualised yield of 56.9%** over the period, taking account of the allocation of bonus shares and assuming reinvestment of dividends in Compagnie Financière Tradition shares.

**No. 1** IN INTEREST RATES DERIVATIVES IN JPY

**No. 1** IN CURRENCY OPTIONS

**No. 1** IN NATURAL GAS AND ELECTRICITY IN THE U.S.A.

**Annualised total return of the Compagnie Financière Tradition share over 5 years: 56.9%**

**Net profit - Group share: x4 in five years**

# Corporate governance



Compagnie Financière Tradition has always been committed to the highest standards of corporate governance. As part of this ongoing commitment, the Company adopted and developed a number of measures to enhance transparency in its shareholder relations, and it fully complies with the provisions of the new *“Directive on Information Relating to Corporate Governance”* published by the Swiss Stock Exchange in August 2002.

## Corporate governance

### Share structure

The Company's capital consists entirely of bearer shares. The structure of share capital, authorised capital and conditional capital, as well as changes in share capital, reserves and retained earnings over the past three years and information concerning options issued by the Company or its subsidiary undertakings on Compagnie Financière Tradition's shares, are presented in the Notes to the financial statements on pages 60, 61 and 62 of the Annual report. There were no Compagnie Financière Tradition dividend-right certificates or participation certificates, and the Company had no convertible loans outstanding at 31 December 2003.

### Group structure and major shareholdings

The Group's organisation chart is shown in simplified form on page 19 of the Annual report and the scope of consolidation is set out on pages 39 and 40. At 31 December 2003, Compagnie Financière Tradition held a 96.93% interest in TFS, a Swiss company listed on the Second Marché of Euronext Paris, ISIN code CH0000491206, capitalised at EUR 44.4 million (CHF 69.2 million) at 31 December 2003. Major shareholders in the Group are shown on page 61. No shareholders' agreement existed at 31 December 2003, and there were no cross-shareholdings exceeding 5.00% of the voting rights or share capital.

### General Meeting and shareholder rights

In accordance with Article 18 of the Articles of Association, each share carries the right to one vote. The Company's Articles of Association do not provide for any restriction on shareholders' statutory voting rights, other than in respect of attendance at a General Meeting - Article 17 of the Articles stipulates that *"a shareholder may only be represented at the General Meeting by his legal representative or by another shareholder attending that Meeting, in possession of an instrument of proxy"* - and the quorums required for the approval of an *"extension and restriction of the scope of Company operations"* and a *"merger with another company"*. These last items both require the affirmative vote of no less than two thirds of the shares represented and an absolute majority of the nominal value of shares represented at a general meeting where no less than 51% of the nominal value of all shares issued is represented.

Pursuant to Sec. 699(3) of the Swiss Code of Obligations (CO), shareholders whose shares together represent a nominal value of CHF 1 million nominal, may request in writing the inclusion of an item of business on the agenda. According to Article 14(2) of the Articles of Association, an Extraordinary General Meeting of shareholders must convene within forty days following the request for a meeting.

The General Meeting is convened at least twenty days prior to the appointed date, by notice published in the *"Feuille Officielle Suisse du Commerce"*. The notice convening the meeting must indicate the items of business on the agenda, as well as any motions of the Board of Directors and shareholders who have requested the convening of the Meeting or an item of business to be included on the agenda, and, in case of elections, the names of the candidates standing for election.

### Board of Directors and Executive Board

#### Board of Directors

The Board of Directors is composed of nine Directors. Other than its Chairman, Mr Patrick Combes, all the Directors are independent and non-executive. None of the Directors has previously belonged to any of Compagnie Financière Tradition's governing bodies or any of its subsidiaries, or had business relations with Compagnie Financière Tradition or any of its subsidiaries at 31 December 2003, with the exception of Mr Robert Pennone, a partner at Pennone, Luthi & Partners. On 26 May 2000, Compagnie Financière Tradition had entered into a liquidity contract with this firm, under which it was appointed market maker for Compagnie Financière Tradition shares. There was no cross-representation on the boards of directors of the companies listed at 31 December 2003. A detailed career history and the functions of each of the Directors appear on pages 14 and 15 of the Annual report. Directors hold office for three years, beginning at the General Meeting at which they were elected and ending at the General Meeting following the expiry of their office. Directors are eligible for re-election. When a director ceases to hold office, for whatever reason, a new director is elected for the term of office that would have remained had his or her predecessor completed their full term.

The Board of Directors is invested with powers and obligations under the law (Sec. 716(a) of the Code of Obligations), the Articles of Association and the Company organisational regulations. In particular, it takes all decisions in all areas that are not reserved to the General Meeting or any other governing body. It exercises the highest level of management and strict control over the Management and people empowered to represent the Company. The organisational regulations provide for the creation of one or more Board committees, and in this regard an Audit Committee and a Remuneration Committee were set up last year. The Board of Directors meets approximately four to six times a year - when the half-year and annual accounts are closed, at each General Meeting, and whenever Company business so requires. Its meetings last an average of three hours. The **Audit Committee**, chaired by Mr Robert Pennone, is made up of four independent, non-executive members, all experienced and knowledgeable in the fields of accounting standards, finance and auditing. The role of the Audit Committee is to assist the Board of Directors in its task of supervising the financial reporting process, the internal control of financial reporting and Company procedures

## Corporate governance

aimed at ensuring compliance with the laws, regulations and code of best practice. The Audit Committee also reviews the performance, efficiency and fees of the external auditors, and ensures that they maintain their independence. Lastly, it reviews the effectiveness of the financial and risk management departments' cooperation with the external auditors. This Committee meets three to four times a year and its meetings last between three and six hours. The **Remuneration Committee**, chaired by Mr Christian Baillet, has three members. It makes recommendations to the Board of Directors regarding remuneration schemes and policies and, more specifically, regarding the terms of remuneration of members of the Executive Board, share option schemes and other incentive schemes. This Committee meets twice a year and its meetings last between two and three hours.

The Board of Directors and its committees receive the full cooperation of the Executive Board, which regularly attends meetings of the Board of Directors to present accounts of its management. Depending on the agenda set by the Chair of each of these Committees, one or more Executive Board members are invited to attend Committee meetings, to provide information required by the Committee and answer questions. In this context, financial executives are regularly consulted by the Audit Committee and invited to attend every Committee meeting preceding the Board of Directors' meeting at which the half-year or annual accounts are closed.

### Executive Board

The Executive Board of Compagnie Financière Tradition is made up of eight people, who meet regularly and exercise the powers conferred on them by the organisational regulations. In this regard, the Board of Directors delegates all ongoing management of the Company to the Executive Board. Biographical details of each of the Executive Board members, including their education, career history, and positions held within Compagnie Financière Tradition are shown on pages 16 and 17 of the Annual report. Members of the Executive Board do not hold any other positions in governing or supervisory bodies of major corporations, foundations or institutions, or any directorships, and have no consultancy functions for significant interest groups, or any official duties or political mandates. At 31 December 2003, there were no management contracts between Compagnie Financière Tradition and any companies outside the Group.

### Share interests of members of the Board of Directors and Executive Board

At 31 December 2003, according to our information, the non-executive Directors of Compagnie Financière Tradition and parties closely linked to them held a total of 70,396 Compagnie Financière Tradition shares. According to our information, at 31 December 2003, the Chairman of the Board of Directors, members of the Executive Board and parties closely linked to them held a total of 4,114,219 Compagnie Financière Tradition shares, of which 4,072,939 were held by Financière Vermeer BV, indirectly controlled by Mr Patrick Combes, and 510,494 share options, each

exercisable in respect of one Compagnie Financière Tradition bearer share. Details of these share options (date granted, expiry, and exercise price) are presented in the Notes to the financial statements, on page 62 of the Annual report.

### Remuneration for members of the Board of Directors and Executive Board

In 2003, non-executive Directors of the Company received total fees of CHF 142,500, paid in the form of cash (CHF 173,000 in 2002). This annual remuneration comprises a fixed amount of CHF 10,000 per director, and a variable amount of up to CHF 10,000 per director, determined on the basis of directors' attendance at the various Board Meetings during the year. In addition, two non-executive Directors also receive CHF 10,000 for their directorships on the Board of TFS, a subsidiary company. The highest total compensation paid to a member of the Board of Directors in 2003 was CHF 30,000, paid in the form of cash. In 1997 and 1998, Compagnie Financière Tradition granted share options to its non-executive Directors; each Director received 7,000 options each granting the right to subscribe one Compagnie Financière Tradition share with a nominal value of CHF 2.50. These options were valid for five years at an exercise price of CHF 12.00 per share. In 2003, 7,000 options were exercised, giving the right to subscribe 7,000 shares at CHF 2.50 nominal. At 31 December 2003, all options granted to non-executive Directors had been exercised. Finally, travelling expenses incurred by Directors, and other expenses related to the performance of their duties, were reimbursed in full.

Executive remuneration is set by the Board of Directors of Compagnie Financière Tradition, on the recommendation of the Remuneration Committee. Members of the Executive Board receive a fixed salary as well as performance-related remuneration. In 2003, remuneration for the executive member of the Board of Directors and members of the Executive Board amounted to CHF 16.0 million against CHF 20.0 million in 2002. CHF 4.0 million was paid in the form of salaries, CHF 10.9 million in the form of cash bonuses, and CHF 0.1 million in the form of perquisites. Executive Board members also received a total of 50,000 share options during the year, each one exercisable in respect of one Compagnie Financière Tradition share. No options granted previously were exercised during the year. The characteristics of these options are described in the Notes to the financial statements, on page 62 of the Annual report. No share allocations were granted to members of either the Board of Directors or the Executive Board during the year. Total remuneration of CHF 7.5 million was paid to two former members of the Executive Board in 2003, in the form of salaries, bonuses and other benefits in kind, as well as fees. No termination bonus was paid in 2003 to former members of the Board of Directors. Members of the Board of Directors and Executive Board did not receive any additional fees totalling or exceeding half of their ordinary remuneration, or any guarantee, loan, advance or credit from Compagnie Financière Tradition or any of its subsidiaries.

### Taking control and defensive measures

The Articles of Association contain no “opting out” or “opting up” clause. The employment contracts of Executive Board members and senior executives of Compagnie Financière Tradition and its subsidiary undertakings do not generally contain any specific provision concerning a change in control of Compagnie Financière Tradition, with the exception of employment contracts of three members of the Executive Board. All three contracts contain a clause providing for these executives to retain office, under identical employment conditions, in the event of a change in control of the Company.

### Information policy

Compagnie Financière Tradition publishes its consolidated turnover on a quarterly basis, and its consolidated results on a half-yearly basis. Moreover, it communicates all events that may affect its share price, in accordance with the requirements of Article 72 of the Listing Rules. Permanent sources of information and contact addresses for the Company are shown on page 4 of the Annual report.

### Risk management and internal control

#### *General risks involved in broking operations conducted by Compagnie Financière Tradition and its subsidiary undertakings*

Compagnie Financière Tradition is committed to strict risk management throughout its operations, and does not allow its operating subsidiaries to generate risks that are not directly related to its broking business. The core of this broking activity is to provide a point of contact for counterparties seeking to trade financial or non-financial products directly between themselves. The broker acts as a completely neutral intermediary. The risks are limited, and are mainly related to the transfer of information to clients and to the payment by these clients of commissions due. The software systems, organisation of administrative teams, and control procedures that have been set in place, ensure efficient follow-up on client transactions. They also meet the standards required of financial institutions: separation of functions, automatic confirmations, recording of conversations and daily controls. Outstanding commissions are monitored regularly, both locally and on the consolidated level. However, increasingly sophisticated customer requirements have brought about changes in broking methods in equities, bonds and securities. Not all counterparties want the markets to know their intentions, and some may wish to remain anonymous. In this case they will ask a broker to act as a neutral agent between the buyer and seller. The broker buys and sells the securities simultaneously and therefore does not take up a market position. It must, however, guarantee settlement of all trades. This form of broking is known as “principal transactions”, and requires specific organisation and follow-up.

#### *Specific risks incurred in principal and clearing transactions*

Having executed the transactions, the broker must then ensure that the clearing is carried out correctly. The risk is that technical delays may occur or that the counterparty may default before the clearing takes place. There are two essential inputs in this operation: the quality of the counterparties involved in the trade, and the efficiency of the administrative organisation behind the clearing.

With respect to the first point, Group companies must, as a rule, obtain authorisation from the Credit Committee for the counterparties with which they wish to deal. Compliance with this authorisation, as well as day-to-day operations, are then monitored by the Risk Management Department. The clearing operations themselves are handled by specialised teams. Compagnie Financière Tradition's indirect subsidiary, Tradition London Clearing Ltd, is a dedicated clearing company, and the pivot for the Group's principal transactions in Europe. Tradition Asiel Securities Inc., one of the Group's American companies, performs all clearing operations in the U.S.A. This company is a member of the Government Securities Clearing Corporation (GSCC), a central settlement counterparty for U.S. securities. Membership in the GSCC considerably reduces the risk of a counterparty default, since it guarantees settlement of all trades entering its net.










#### *Internal Control and Risk Management*

The first level of control is identified within each operational entity of the Group. The Executive Board then actions a targeted information system, which allows it to follow key parameters, such as average client payment times, the possible imposition of financial penalties in the event of execution errors, and client distribution analysis. The Risk Management Department also monitors principal transactions on a daily basis. Transactions are controlled on the basis of Group company, counterparty, and product, as well as from the angle of consolidated operations. This Risk Management Department is directly accountable to the Chairman of the Board of Directors. Finally, risks, and risk management and control, are reviewed by the Group's Audit Committee.

### External auditors

The Company's external auditors are Ernst & Young of Lausanne. They were first appointed in 1996, and re-appointed by the Annual General Meeting of 19 May 2003, for a term of one year. The firm is represented by Mr Hans Isler, auditor in charge, who took up office for the audit of the 2003 accounts, and Mr Stéphane Muller. Ernst & Young earned fees of CHF 1,430,000 for fiscal 2003, CHF 34,000 of which were in addition to the audit of the accounts of Compagnie Financière Tradition and its subsidiaries, against CHF 1,456,000 and CHF 122,000 respectively for fiscal 2002.

# Board of Directors

	Appointement at Compagnie Financière Tradition	Functions in governing and supervisory bodies of major corporations, foundations or institutions at 31 December 2003
<p><b>Patrick Combes</b> <i>Chairman of the Board of Directors</i> French national, aged 51.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Chairman of the Board of Directors of Compagnie Financière Tradition, Chairman of the Board of Directors of VIEL &amp; Cie (France), VIEL et Compagnie Finance (France), and Financière Vermeer BV (Netherlands), Director of Verbalys (France).</p>
<p><b>Christian Baillet</b> <i>Director</i> French national, aged 53. Member of the Audit Committee and Chairman of the Remuneration Committee.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Chairman of Quilvest Holding France, Chief Executive Officer of Quilvest, Chief Executive Officer and Director of Banque Privée Quilvest and Quilvest Capital France, Director of VIEL &amp; Cie (France), Quilvest S.A. (Luxembourg), Garden Ridge (U.S.A.), and Botts &amp; Cie (U.K.), and Chairman of the Board of Directors of Société Internationale de Finance (Switzerland).</p>
<p><b>Hervé de Carmoy</b> <i>Director</i> French national, aged 66.</p>	 <p>First elected on 29 September 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Managing Partner of Rhône Group LLC (France), Chairman of the Supervisory Board of Sydney &amp; London Properties (U.K.), and member of the Supervisory Board of Société Industrielle du Hanau (France).</p>
<p><b>François Carrard</b> <i>Director</i> Swiss national, aged 65. Member of the Remuneration Committee.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Chairman of the Board of Directors of Beau-Rivage Palace S.A. in Lausanne (Switzerland), Swissmetal UMS S.A. (Switzerland), Groupe Vaudoise Assurances (Switzerland) and member of the Boards of Directors of Kamps AG (Germany) and ING Bank (Switzerland) S.A. (Switzerland).</p>
<p><b>Jean-Marie Descarpentries</b> <i>Director</i> French national, aged 67. Member of the Audit Committee.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>President of the FNEGE (France), CEO of Ingenico (France), Director of Assurances St-Honoré (France), Banque de Vizille (France), Parsys (France), VIEL &amp; Cie (France), member of the Strategy Committee of Bolloré (France) and Ernst &amp; Young France, member of the Supervisory Council of Completel Europe NV (Netherlands), member of the Advisory Boards of British Telecom Services (U.K.) and Celerant Consulting (U.K.).</p>
<p><b>Christian Goecking</b> <i>Director</i> Swiss national, aged 60. Member of the Remuneration Committee.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Deputy Director of Berney &amp; Associés S.A. (Switzerland), and Director of CIM Banque (Switzerland).</p>
<p><b>Pierre Languetin</b> <i>Director</i> Swiss national, aged 80. Member of the Audit Committee.</p>	 <p>First elected on 4 May 1995. Re-elected 11 May 2001 for 3 years.</p>	<p>Chairman of the Board of Directors of Rosbank S.A. (Switzerland) and member of the Boards of Directors of the Ludwig Institute for Cancer Research and Dryden Bank S.A. (Switzerland).</p>
<p><b>Robert Pennone</b> <i>Director</i> Swiss national, aged 59. Chairman of the Audit Committee.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>President of FidGroupe (Switzerland), Vice-President of the Board of Directors of AGEFI Group S.A. (Switzerland), and Chairman of the Board of Directors of Banque SCS Alliance S.A. (Switzerland).</p>
<p><b>Urs Schneider</b> <i>Director</i> Swiss national, aged 58.</p>	 <p>First elected on 7 January 1997. Re-elected 11 May 2001 for 3 years.</p>	<p>Director of the IFCI Foundation - International Financial Risk Institute - (Switzerland), member of the Foundation Board of the International Social Service (ISS) - Swiss Section.</p>



**Permanent management and consultancy functions for important interest groups at 31 December 2003**

**Official and political functions at 31 December 2003**

	Education	Career history
None.	Ecole des Affaires Européennes (ESCP-EAP), Paris. MBA from Columbia University, New York.	On his return from New York in 1979, he took over VIEL & Cie, gradually transforming the Company through organic and external growth, first within France and then on the international level, into a global player on the world's financial markets. In 1996, when VIEL & Cie took control of Compagnie Financière Tradition, Patrick Combes became Chairman of the Board of Directors.
None.	Studied in France and the United States (MBA Wharton).	Christian Baillet joined the Corporate banking division of Citicorp in New York in 1975. Since 1978, he has been with the Bemberg Group, based in Paris, where he was Manager of French and European Investments, and is now Group Finance Director. In 1994, he was appointed Chief Executive of Quilvest S.A. Luxembourg, in charge of investments; he is also Chief Executive Officer of Banque Privée Quilvest in Paris.
None.	Graduate of the Institut d'Etudes Politiques, Paris, and Cornell University (MBA).	Hervé de Carmoy joined Chase Manhattan Bank in 1963, where he was Chief Executive for Western Europe. In 1978, he joined Midland Bank PLC, and in 1984 was appointed Chief Executive, Director and member of the Executive Committee of the Midland PLC Group, London. From 1988 to 1991, he was Deputy Director of Société Générale of Belgium. In 1992, he was appointed President and Chief Executive of the BIMP, and then in 1999, he became Managing Partner of Rhône Group LLC in New York.
None.	LL.D., University of Lausanne.	François Carrard has been a practising attorney since 1967. He is a partner in the law firm of Carrard, Paschoud, Heim & Partners in Lausanne, and is a specialist in corporate law, particularly the banking and financial sector.
None.	Graduate of the Ecole Polytechnique (Paris).	Jean-Marie Descarpentries has been a senior executive in some of Europe's major industrial groups. From 1982 to 1991, he was CEO of Carnaud Metalbox. From 1994 to 1997, he was CEO of Bull, and was responsible for turning the company around. He is presently President of the FNEGE (Fondation Nationale pour l'Enseignement de la Gestion des Entreprises), and CEO of Ingenico.
None.	Graduate of the HEC, University of Lausanne.	Christian Goecking has spent 36 years in banking, finance, and particularly in financial brokerage. He has worked in senior management and as deputy director at major Swiss banks and English brokerage houses. He was Manager of private asset management at the Julius Baer Group in Geneva and Lugano.
None.	Degree in economics and business administration and Docteur Honoris Causa from the University of Lausanne.	Pierre Languetin began his career in Paris at the Secrétariat of the Organisation for European Economic Cooperation, from 1949 to 1954. He then moved to Bern, where he worked for the Department of Economic Affairs from 1955 to 1976. He was Ambassador Delegate of the Federal Council for International Trade Agreements since 1966, and was a member then President of the Governing Board of the Swiss National Bank from 1976 to 1988. From 1985 to 1988, he was on the Board of Directors of the BIS.
None.	Chartered accountant.	Robert Pennone was Managing Director of ATAG Ernst & Young, where he was also a Director, then Managing Director of Ernst & Young M&A Europe. From 1996 to 1999, he was Chief Executive of corporate banking operations at the bank Marcuard Cook & Cie S.A. From 1979 to 1983, he was President of the Ordre des experts-comptables of Geneva.
None.	Graduate of the Haute Ecole de Commerce (HEC) of the University of St. Gallen.	Urs Schneider spent two years at LEICA, Heerbrugg, before joining the IMI/IMD (International Management Institute), Lausanne, where he held different posts from 1971 to 1984, including Administrative Director and Director of the MBA programme. Since 1985, he has been Director of the IFCI Foundation - International Financial Risk Institute.

# Executive Board



Left to right: Robin Houldsworth, Emil Assentato, Catherine Bienstock, David Pinchin, Dominique Velter, Adrian Bell, Ghislaine Mattlinger, Patrick Combes, Julian Harding.

## **Emil Assentato**

*Managing Director TSH Americas*  
American national, aged 54



An economics graduate from Hostra University in 1973, Emil Assentato began his career on Wall Street, before joining Tradition in 1986 as Manager of money market and derivatives operations. In 1991, he was appointed Chief Executive of Tradition (North America) Inc. and Tradition Asiel Securities Inc. (formerly Tradition Government Securities Inc.).

## **Adrian Bell**

*Managing Director TSH Asia-Pacific*  
Australian national, aged 42



Adrian Bell is a native of Sydney, Australia. After leaving high school, he studied Japanese and Mandarin, and went to Japan to begin a career in the money market in Tokyo in 1986. He has experienced first hand many of the changes that have occurred over the last seventeen years in the money markets throughout Asia. He worked in Singapore in 1991, and has overseen the expansion of Tradition's presence in Asia and Australia, first in Tokyo since 1997, and more recently in Hong Kong, Singapore and Sydney, where he developed operations in interest rate derivatives.

## Executive Board

### **Catherine Bienstock**

*Risk Manager*

French national, aged 49



After graduating from the University of Paris II (DEA in international economics), Catherine Bienstock joined the Organisation for Economic Cooperation and Development in 1979. She moved to Banque Nationale de Paris in 1983 where she held several positions, the last being the control of market operations. In January 1995, she became internal auditor at Compagnie Financière Tradition, based in London. During her stay in England, she took a Master's degree, specialising in the regulation of financial services. She became Risk Manager in September 2001.

### **Julian Harding**

*Managing Director of TFS*

British national, aged 46



Julian Harding is a graduate of Newcastle University, England. He began his financial career at Société Générale in London where he traded spot and forward currencies as well as European depository instruments. In 1981, he joined International Treasury Management, a subsidiary of Marine Midland Bank/HSBC, where he consulted for major European corporations. He went to New York in 1983, where he was a pioneer of the new currency option product. In 1985, along with David Pinchin and Compagnie Financière Tradition, he founded TFS, becoming its co-CEO.

### **Robin Houldsworth**

*President of Tradition Service Holding (TSH) and Holding Tradition Securities (HTS)*

British national, aged 40



After graduating from Hull University in 1985, Robin Houldsworth became a barrister-at-law in 1986; he is a member of the Honourable Society of the Inner Temple. In 1987, he joined Tradition where he created the interest rate swaps desk. He was appointed a Director of Tradition (U.K.) Ltd in 1989, then Chief Executive in 1997, and in January 2004 he became President and CEO. Robin Houldsworth is also Chief Executive of Monecor (London) Ltd, a post he has held since 2000. His responsibilities have gradually extended to cover European operations and, in January 2004, to all the operating divisions of TSH and HTS.

### **Ghislaine Mattlinger**

*Managing Director in charge of finance*

French national, aged 35



A graduate of the Ecole des Hautes Etudes Commerciales (HEC) in France, Ghislaine Mattlinger spent seven years at Arthur Andersen, where she was responsible for several consulting and auditing missions in the financial markets department. She joined Compagnie Financière Tradition in October 1996 as Chief Financial Officer, before becoming, in 2001, Managing Director in charge of finance.

### **David Pinchin**

*President of TFS*

American national, aged 56



David Pinchin, one of the founders of the OTC currency options market in the early eighties, was also one of the two co-founders of TFS in 1985. Prior to TFS, he was Managing Director of International Treasury Management Ltd, a subsidiary of HSBC and Marine Midland bank, where he traded interest rate swaps. He holds an honours degree in business studies from the City of London College.

### **Dominique Velter**

*Strategic Marketing Director*

French national, aged 39



Dominique Velter holds a Master's degree in economics from Paris-Dauphine University (France). She joined BATIE, the capital market banking arm of Thomson, when it was formed in 1986. In 1989, she was appointed Director of financing of the Bernard HAYOT Group, specialists in wholesale and retail distribution. She obtained an MBA from ISA-HEC in 1996, and joined VIEL & Cie to assist the Chairman on development projects. In 1999, she created the Group's online broker Capitol.fr, and was its President until April 2001, when she was appointed Strategic Marketing Director of Compagnie Financière Tradition.

# Key events 2003

Compagnie Financière Tradition moved further towards achieving its objective to gradually rationalise its legal structure. A number of initiatives were introduced in 2003, aimed at facilitating business integration and limiting the legal and tax constraints inherent in its organisation, while reducing the weight of minority interests on the balance sheet. These measures produced an overall improvement, on an annual basis, of almost CHF 2.9 million in Group share of net profit. At the same time, Compagnie Financière Tradition continued to enhance its product portfolio throughout the year.

## July 2003

- Acquisition of 21.78% of Tradition Securities And Futures S.A. During the second half of the year, Compagnie Financière Tradition acquired a further stake of 0.99%, bringing its holding in the company to 99.87% at 31 December 2003, against 77.10% at 31 December 2002.
- Purchase of Petercam S.A.'s 50.00% interest in Finacor & Associés S.A., a Brussels-based brokerage company, for a symbolic price of CHF 1. Compagnie Financière Tradition now wholly owns the company.

## October 2003

- Agreement signed with the managers and employees of TFS, to acquire their shares in the company. The purchase, finalised in November 2003, brought Compagnie Financière Tradition's interest in TFS from 70.77% at end-2002 to 96.93% at 31 December 2003.

## December 2003

- Takeover-merger of Tradition Securities And Futures S.A. by VIEL Tradition S.A. The new entity kept the name Tradition Securities And Futures S.A.
- Tradition Orient FX Co. Ltd changed its name to Gaitame.com Co. Ltd. The company, in which Compagnie Financière Tradition now has a 37.40% controlling interest, is continuing to grow its operations in foreign exchange trading online and via mobile telephone.

## Equities/Equity derivatives

- Creation of three new broking operations in London, Exchange For Physical (EFPs) in March, structured products in May and exotic options in October.
- Enhanced its product portfolio in Paris, with the launch of structured products in January and equities arbitrage in September.
- Tradition Asiel Securities Inc. recruited an equities research team in September.

## Energy

- Introduction of transactional screens for environmental products in May, and for coal in December.
- Creation of a freight derivatives desk in London followed by a natural gas desk.

## Currency options

- Launch of TFS-ICAP-Volbroker's Straight Through Processing (STP) platform in May.

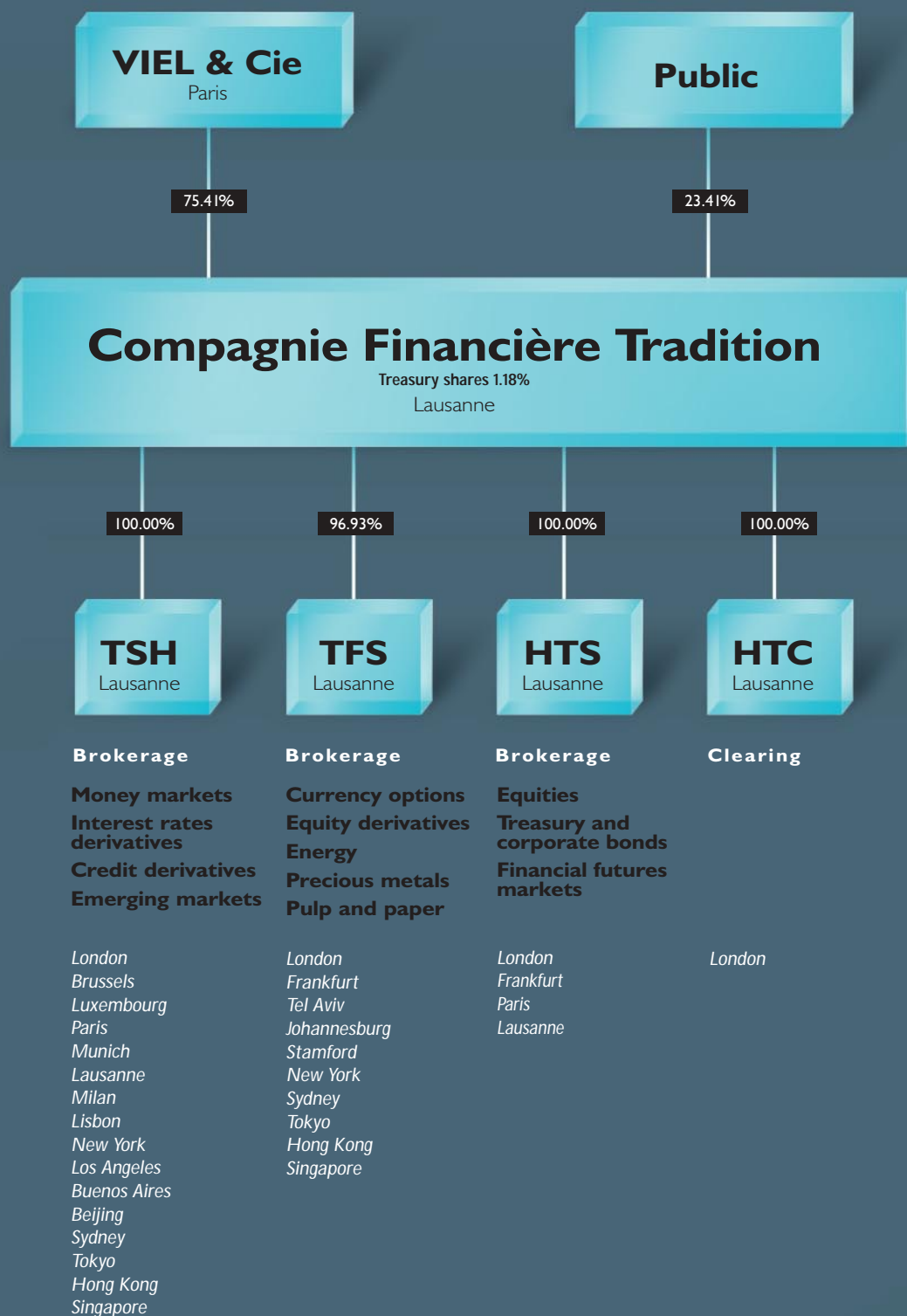
## Interest rate derivatives

- Recruitment of a new interest rate options team in London in January, which proved highly successful during the year.
- New desk in Singapore, specialising in interest rate swaps and Non-Deliverable Forwards (NDF) in Korean won.
- New premises in Tokyo for the team at Meitan Tradition Co. Ltd, specialist in interest rate derivatives and uncontested leader in the yen and dollar markets.

## New activities

- Launch of [www.FXDD.com](http://www.FXDD.com), a transactional platform specialised in forex broking to private and institutional clients in the U.S.A.

# Simplified organisation chart at 31 December 2003



Note: Names of companies and their percentage shareholdings are detailed in the Notes to the consolidated financial statements on page 39 and 40.

# The Economy through the seasons

## • Winter

### Geopolitical factors leave their trace.

The start of the year was strongly influenced by geopolitical factors. Fears of terrorist attacks would hang over the economy throughout the year provoking nervousness among investors and increasing price volatility. The Iraq crisis was a decisive factor for the markets: while commodity and precious metal prices spiralled upwards, performance on the equity markets was somewhat of a mixed bag. The outlook for the U.S. economy was relatively encouraging, but Europe seemed unable to shrug off its woes and remained close to stagnation. In Japan, the drop in prices and salaries continued to weigh on consumption and growth. War was finally declared on Iraq on 20 March, and was over in record time. Its end triggered a rebound on the equity markets, where positive sentiment indicated an early global recovery, but at the same time sent the bond markets heading south.

## • Spring

### Risk of deflation and the American economy on the rebound.

New uncertainties about world growth caused high volatility in the currency and interest rate markets. While China was showing signs of overheating, fears of deflation gripped the United States. The American government brought in measures to kick-start the economy, which quickly led to burgeoning budget deficits. In the private sector, stringent cost cutting made itself felt on corporate balance sheets, and companies began to return to the black. Europe, on the other hand, still suffered from dismal growth and a deterioration of the labour market. Growth in Japan also remained lacklustre.

## • Summer

### A strong euro or a weak dollar?

France and Germany, on the verge of a recession, allowed their budget deficits to climb, which put a strain on the European Stability Pact. Growth remained elusive in Europe, where exports were penalised by the strong euro. This was the direct result of the plunging dollar, which came under pressure as a result of the U.S. twin deficits (budget and trade). The markets became increasingly concerned about an outflow of Asian funds from U.S. capital markets. The equity markets racked up gains against a background of flat interest rates. Growth in Japan remained weak and the yen appreciated strongly despite sustained intervention efforts by the Bank of Japan.

## • Autumn

### Strong U.S. upswing, dynamic growth in Asia, Europe left behind.

The U.S. recovery gained momentum, encouraged by an improvement in the labour market. The consensus economic viewpoint was that American GDP would enjoy spectacular growth of around 4% over the next few quarters. In Europe, the worst seemed to be over, but the recovery remained elusive. Japan began to benefit from the first tentative signs of an economic turnaround, and the growth rate in China was spectacular. Yields continued to rise on the interest rate markets. After three years of decline, the major stock markets ended the year strongly ahead, with rises ranging from 16% for the CAC 40 to 25% for the Dow Jones and Nikkei, to a dizzying 50% for the Nasdaq. The euro rose 20% against the dollar in 2003, following on the heels of an increase of 18% the previous year.

## Outlook

World growth looks set to accelerate in 2004, powered by an American economy riding the crest of an electoral year and dynamic input from the Asian region. Even Europe is expected to show signs of recovery, albeit on a much more modest scale. Against this backdrop, both short- and long-term interest rates look set to rise. Forex developments continue to give cause for concern. The dollar is expected to be dogged by uncertainty over how the American deficits will be financed. Finally, the outlook for equity markets looks mixed at the moment, and the anticipated rise will probably remain moderate. While these markets could certainly benefit from the economic growth, a hike in interest rates could make them less attractive to investors, and their present levels have already factored in the good news on the economic front.

# Activities 2003

Compagnie Financière Tradition acts as a broker in over-the-counter (OTC) and regulated markets, earning commissions from negotiating trades and facilitating counterparty transactions. These operations are carried out through operating subsidiaries, based in sixteen countries and held by four subholding companies: Tradition Service Holding S.A. (TSH), TFS, Holding Tradition Securities S.A. (HTS) and Holding Tradition Clearing (HTC). Compagnie Financière Traditions' operations are organised along a matrix structure geared to product lines and geographical zones. The growth momentum in broking activities continued in 2003, with revenues ahead 7.1% at constant exchange rates, having doubled over the past five years, while a tight reign on operating costs enabled Compagnie Financière Tradition to increase operating profit by 37.0% in constant terms. This above-trend growth, combined with measures implemented in 2002 to reduce minority interests, generated a year-on-year rise of 20.6% in Group share of net profit, to CHF 38.4 million.

## Activities 2003

### Compagnie Financière Tradition enhanced its position in its traditional core sectors: interest rate derivatives and money market products...

Conditions were once again buoyant for the Company's core interest rate derivatives business in 2003, after having experienced a chequered year in 2002. This sector now accounts for 45.0% of consolidated revenues, representing a year-on-year rise of more than 18% at constant exchange rates.

Compagnie Financière Tradition is the only major non-Anglo-American broker in **continental Europe**, which accounts for more than 12% of its interest rate derivatives business and almost 19% of total revenues. It has offices in Brussels, Munich, Luxembourg, Paris, Lausanne and Milan, specialised in the money markets and short-term off-balance sheet products. These offices all have high-calibre teams and occupy key positions in their respective markets, but for the past few years have had to cope with a gradual drying up of local liquidity, brought about by continuing consolidations in the banking sector and the migration of business to London. The trend kept up in 2003, and revenues generated by these offices fell by over 9%. Against this backdrop, the offices moved to restructure costs at the same time as the Group implemented a strategy to gradually simplify its legal structure in order to leverage synergies between offices. The strategy was implemented in 2003 with the takeover of minority interests in its Brussels subsidiary, the merger of its Luxembourg activities, and the merger of its Paris companies.

In **London**, Compagnie Financière Tradition is one of the leading players in the City, where activities accounted for over 35% of its revenues in interest rate derivatives and money market products. After a poor year in 2002, its subsidiary Tradition (U.K.) Ltd once again enjoyed double-digit revenue growth in 2003. Much of the improvement was generated by interest rate options, which benefited from the substantial input of new teams recruited early in 2003, and interest rate swaps, which outperformed the market, gaining 25% over the year. These excellent results confirmed Compagnie Financière Tradition's leadership in the London interest rate derivatives market, despite a highly competitive environment. The Company continued to grow its sterling operations, once again gaining market share in 2003, while strengthening its presence in emerging market currencies, particularly the South African rand.

In **New York**, the Fed's interest rate policy again played a major role in the Company's activities, with the historically low interest rates negatively impacting volumes in money market products. However, the slack was largely taken up by increased volumes on swaps and interest options, which reached record levels in 2003 and look likely to stay high in 2004. Despite the gradual disappearance of European currencies with the implementation of the single currency, Tradition (North America) Inc. maintained satisfactory market share and profitability on its activities in G5 currencies, while initiating a new desk for emerging market currencies. This desk got off to a promising start in 2003.

In the Asia-Pacific region, the Company enjoyed an excellent year, with revenues increasing by over 20%. This region now accounts for close to 30% of revenues on interest rate products and almost 19% of total Group revenues. Mirroring the experience of Tokyo in recent years, Hong Kong and Singapore have also registered sustained growth momentum. This has now been followed by **Sydney**, where a new subsidiary, Tradition Australia Pty Ltd, has been established to specialise in interest rate derivatives. These activities will enhance Compagnie Financière Tradition's local presence, which until now has been limited to operations in gold and electricity.

In **Tokyo**, the Group strengthened its leadership position across all interest rate products, through its subsidiary, Meitan Tradition Co. Ltd. In addition to sustained growth in its interest rate derivatives business, which rose over 25% in 2003 and now accounts for 75% of the company's revenues, efforts in recent years to consolidate market share in the more traditional products have borne fruit. In its spot and foreign exchange businesses, which grew strongly during the period, Meitan Tradition Co. Ltd is now a leader in the Japanese market.

When Compagnie Financière Tradition took 100.00% control of its **Singapore** subsidiary in July 2002, it moved to develop interest rate swaps in the Singapore dollar, following this up in April 2003 by the recruitment of new teams to develop activities in the Korean won. These moves proved highly successful, and Tradition Singapore (Pte) Ltd doubled its revenues in 2003.



## Activities 2003

Despite signs of an economic recovery in several Asian countries, the Group's performance in **Hong Kong** was mixed. Weak interest rates hurt traditional products, such as deposits and local currency bonds. However, the slowdown was more than offset by the growth in off-balance sheet operations, structured products and operations conducted with China. Switchfix, an online tool designed to allow automatic clearing of residual risk positions in swaps, developed by Tradition (Asia) Ltd in 1999, built on its success in 2003, generating record revenues and contributing to a total growth of almost 60% of the company's turnover in 2003.

...while growing its leadership in currency options through the TFS-ICAP-Volbroker joint venture.

In the **currency options** market, Compagnie Financière Tradition joined forces with ICAP, an interdealer broker, in June 2000 to create a joint venture with a presence in the seven major financial centres - London, New York, Sydney, Tokyo, Singapore, Frankfurt and Copenhagen. This joint venture was completed in late 2001 by the merger with Volbroker, a trading platform owned by a banking consortium (Citigroup, Deutsche Bank, Goldman Sachs, UBS Warburg, JP Morgan and Royal Bank of Scotland). This alliance between the No.1 voice broker and the No.1 electronic platform has proved very positive for all concerned, resulting in increased turnover and profits in the sector, and improvements in TFS-ICAP's margins and market share. The new entity built on its success in 2003, with revenues rising by over 22% at constant exchange rates.

Compagnie Financière Tradition's strengthened its global leadership in currency options in 2003, not only in classical products but also in complex currency options and exotic currencies. This development was due to the exceptional growth in liquidity generated by the Volbroker platform, which also offers TFS-ICAP clients a choice of voice broking and electronic trading facilities, as well as unprecedented access to Straight Through Processing. This success was recognised by the prestigious *RISK Magazine*, a leading journal in financial circles, which rated TFS-ICAP the No.1 broker of currency options in 17 out of the 23 categories in its 2003 rankings.

It was a chequered year for operations in securities broking, which generated turnover of CHF 305.2 million, with a greater footprint in European government debt...

With its two Paris brands, Tradition and Finacor, Compagnie Financière Tradition remained a leading provider of voice broking services in French **government bonds**, as competition from electronic broking stabilised during the year. Despite the very low interest rate levels that persisted in 2003, activities in government paper remained buoyant, despite downward pressures on brokerage. In Germany, where synergies were exploited with other Group companies, teams strengthened their presence in German and eurozone government debt and maintained market share, despite strong competition from electronic broking. Compagnie Financière Tradition, through its subsidiary Finacor Rabe AG, is now the uncontested leader in the market for Jumbos-Pfandbriefe.

The Company has been expanding its portfolio of **corporate bonds**, seeking to position itself as a niche player. Two segments in which it is particularly active are distressed bonds in the U.S.A., which is one of the leading segments of its New York subsidiary, and emerging market corporates.

Compagnie Financière Tradition is a major player on the European **financial futures markets** through its subsidiary Tradition Securities And Futures S.A. (TSAF), which is a member directly, or through its London branch of MATIF, MONER, Eurex and Liffe. Volumes traded on these markets continued to grow globally in 2003, as did the Company's activities in these markets in Paris and London. TSAF's activities in Euro STOXX derivatives grew strongly in 2003, establishing the company as a leader in this sector. The Company also exploited synergies between its Paris subsidiaries and its German subsidiary, Finacor Rabe AG, to develop the latter's business on the futures markets.

Building on the success of its Paris operations in broking government debt and financial futures for a local clientele, the Company will extend this expertise to other European offices in 2004, to enhance the product portfolio offered to local customers.

## Activities 2003

...while positioning itself as a major broker in the rapidly growing market for equity derivatives and structured products.

In OTC **equity derivatives**, mainly single stock and index options, the Group had another strong year through its subsidiary TFS, posting an increase in turnover of 10% at constant exchange rates, while growing its market share and contribution to profit in this sector, both in Europe and the U.S.A. Compagnie Financière Tradition continued to diversify its product portfolio, and now brokers more indexes and more single stocks than ever before. This market too became more sophisticated, marked by a growing number of hedge funds and a rise in exotic trading. In May, the Group launched its own structured equity derivatives desk in its London office. Getting off to a promising start, this desk specialises in high value added trades aimed at a European clientele.

2003 was a chequered year for **equities** broking, with the global rebound on the equities markets in general showing more sensitivity in prices than volumes. New teams were recruited in Paris, to complete the existing equities organisation at the two subsidiaries, Tradition Securities And Futures S.A. and MIA, and helped boost revenues by over 50%. On the downside, persistently morose market conditions led Compagnie Financière Tradition to terminate its equities operations as its Frankfurt subsidiary, Finacor Rabe AG. The ensuing losses were substantial, and provoked a complete restructuring of the company's activities. Finally, new teams were recruited in London and New York, which should contribute to the development of the Company's equities business in 2004.

Globally, activities in equities and equity derivatives generated consolidated revenues of CHF 67.8 million in 2003. This represents a year-on-year rise of almost 14% in constant terms.

Compagnie Financière Tradition benefited from its leadership position in energy and precious metals brokerage...

The Company remains the No.1 broker in the world's **energy** market, through its subsidiary, TFS. This position was confirmed in February 2004 in the rankings published by *RISK Magazine*, and reflects the Group's successful diversification strategy and the fact that it brokers more energy products in more countries than any of its competitors.

Energy operations had a chequered year, with revenues down almost 25% overall at constant exchange rates, and flat operating results after a very profitable year in 2002. In the U.S.A., confidence was rocked by successive reports of weak corporate governance, the collapse of market valuations, and the downgrading of most of the players in the sector, causing a liquidity crisis and the disappearance of several market participants. This diminution in business, particularly noticeable in the electricity sector, started to accelerate in the fourth quarter of 2002 and finally bottomed out in the summer of 2003. The slowdown in volumes on weather derivatives and natural gas was less pronounced, and there have also been signs of a turnaround in these sectors since the end of the year.

After a strong first quarter, driven by the volatility generated by the war in Iraq, activities in the oil sector were undermined by the withdrawal of several important players. Overall performance in these activities was down slightly on the year, although the slowdown in Europe was partly offset by a promising start from the recently established New York office, and a great performance out of Singapore.

Finally, the London office maintained its growth in environmental and weather products, and launched new activities in freight and natural gas derivatives during the year.

## Activities 2003

Compagnie Financière Tradition is still the market leader in **precious metals** options in the U.S.A., U.K. and Australia, with revenues and profit levels remaining stable compared with last year. The precious metals market gradually migrated from the U.S.A. and Australia to London in 2003, and Compagnie Financière Tradition mirrored the movement with a reorganisation of its teams. As the price of gold soared in the second half, the Group registered record levels of activity, and this trend is expected to continue in 2004.

Against this background, consolidated revenues earned on energy and precious metals activities were sharply lower in 2003, at CHF 64.8 million, against CHF 90.1 million the previous year, a drop of close to 21% in constant terms.

...and now offers a new clientele of private investors a diversified portfolio of forex trading and spread betting, which accounted for turnover of CHF 18.4 million in 2003 and contributed CHF 9.6 million to consolidated turnover.

In 2002, Compagnie Financière Tradition extended its range of services for private investors, with the launch of three activities: in London, it successfully launched a spread betting website, **Tradindex.com**, which got off to an excellent start in 2003 and had 18,000 registered users at the end of the year. In Tokyo, **Gaitame.com** offers its 6,000 strong private customers online forex trading in the spot markets, via the Internet or I-mode. The company, 37.40% controlled by Compagnie Financière Tradition, accounted for using the equity method, posted a sixfold increase in turnover in 2003, positioning it as the No.1 leader in this segment in the Japanese market. A comparable service, **FXDD.com**, was launched in the U.S.A. in 2003, through Compagnie Financière Tradition's subsidiary, FXDirectDealer LLC.

Finally, the Group introduced changes to its portfolio of activities in its non-core businesses, where turnover reached CHF 3.5 million in 2003.

**Capstone Global Energy**, created in 1999, provided energy consulting services to European and U.S. companies in the energy field. In 2003, in the face of severely deteriorating conditions in the energy market, Compagnie Financière Tradition decided to terminate operations at this subsidiary. **Equitek**, created in July 2000, is a venture capital company focusing its portfolio on broadband and enabling technology. The company completed its first capital-raising exercise in July 2001, followed by two new closings of the fund in 2002. The first fund is now 90% invested with a number of its investments showing early promise. **The Recruitment Company** (TRC), created in September 1999, is a recruitment specialist in the financial, energy and new technologies sectors, with offices in London, New York, Sydney and Tokyo. In 2003, the company's turnover rose to CHF 3.3 million against CHF 2.7 million in 2002, on the back of an expansion of its Asian operations, but still continued to weigh on Group profit. Restructuring measures introduced in London and New York in the first quarter of 2004 are expected to turn TRC around during the year.

# Results 2003

Group turnover was up 7.1%, at constant exchange rates, to CHF 786.1 million...

**Consolidated turnover** was CHF 786.1 million in 2003 against CHF 791.5 million in the previous year. This represents an increase of 7.1% at constant exchange rates but a decline of 0.7% at current rates, and reflects the strength of the Swiss franc which rose 13% against the dollar and almost 6% against sterling.

The Group earns over 60% of its income in the United States and United Kingdom.

Performance throughout the year was uneven, getting off to a slow start as financial markets marked time, before surging ahead in the second and third quarters, with turnover up by 14.0% and 16.4% respectively in constant terms, only to fall back to 5.9% in the final quarter with the year ending on a calm note.

Globally, the **segmental and geographic analysis** of consolidated revenues was as follows:

<i>in thousands of Swiss francs</i>	Currencies and interest rates		Securities and security derivatives		Commodities and other activities		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Europe	191,107	175,494	173,154	161,603	28,642	33,902	392,903	370,999
United States	88,653	80,557	127,688	160,892	28,725	47,190	245,066	288,639
Asia-Pacific	123,270	111,379	4,321	7,204	20,572	13,284	148,163	131,867
<b>Total</b>	<b>403,030</b>	<b>367,430</b>	<b>305,163</b>	<b>329,699</b>	<b>77,939</b>	<b>94,376</b>	<b>786,132</b>	<b>791,505</b>

**Other operating income** of CHF 6.4 million had been booked in 2002, consisting mainly of insurance payouts to compensate Compagnie Financière Tradition for income losses sustained by its two U.S. subsidiaries in the wake of the September 11 attacks. In 2003, other net operating income was balanced, comprising one final payout of CHF 0.5 million from New York City in connection with September 11, and a net expense of CHF 0.7 million, representing the share of the profit generated by the TFS-ICAP-Volbroker joint venture paid to Compagnie Financière Tradition's partners.

...and an operating profit of CHF 61.1 million, up 37.0% in constant terms, for an operating margin of 7.7% of consolidated revenues, against 6.1% in 2002 - excluding insurance proceeds...

**Consolidated operating profit** rose to CHF 61.1 million from CHF 54.4 million in 2002. The 2002 figure included indemnities related to the September 11 attacks, which had negatively impacted consolidated profit in 2001. After restating the operating profits for 2002 and 2003 to exclude these indemnities, and at constant exchange rates, consolidated operating profit was up by 37.0%.

**Consolidated operating margin** was significantly higher at 7.8% of consolidated revenues, or 7.7% excluding September 11 indemnities, compared with 6.1% excluding insurance indemnities in 2002, and reflects an improvement in the principal operating ratios.

**Consolidated personnel costs** were down slightly at CHF 538.8 million, or 68.5% of consolidated revenues against CHF 546.6 million or 69.1% in 2002. Variable remuneration increased to 38.5% of the total, against 36.9% in 2002, reflecting the Company's policy of making salary costs more flexible to better absorb any reduction in activities that might occur in a particular product or geographic location.

**Cost of telecommunications and the purchase of financial information**, the second biggest expense category after salaries, dropped to 7.7% of consolidated revenues against 8.4% in 2002 and reflected a more efficient management of telecommunications costs. Early in 2003, Compagnie Financière Tradition introduced a new grouped purchasing structure for these services, allowing it to take advantage of volume pricing, while at the same time it renegotiated contracts on the local level. This improvement is expected to continue in 2004.

## Results 2003

Consolidating its position as a leading broker in a broad range of financial products, where it ranks first or second in the world, the Group introduced a comprehensive strategy at the end of 2002 to leverage better value from its **market information capital**, and progressively offset the cost of purchases of financial information with earnings from the sale of its own information flows. Several contracts were signed in 2002 and 2003, which generated additional income of around CHF 1 million in 2003. Although this amount is still marginal compared with income earned by some of its competitors, earnings are expected to rise sharply in 2004, thanks to the recent recruitment of highly regarded specialists in this field.

...and Group share of consolidated net profit of CHF 38.4 million, a year-on-year rise of 20.6%.

**Net financial income** stood at CHF 9.6 million, compared with CHF 23.3 million in 2002, when net gains of CHF 24.9 million were recognised on the disposal of interests. In 2003, the Company recorded net gains of CHF 7.5 million on securities, CHF 5.8 million of which were net gains realised on the disposal or distribution of treasury shares, acquired during the financial year.

**Profit before tax and exceptional items of consolidated subsidiaries** was CHF 70.7 million, against CHF 77.7 million in 2002, for profitability before tax of 9.0% in 2003. A consolidated tax charge of CHF 26.1 million was recognised in 2003, or 36.9% of profit before tax and exceptional items, down from CHF 32.0 million or 41.2% in 2002. This figure reflects measures taken in 2003 to rationalise the Group's legal structure, which allowed it to use tax loss carry forwards from some of its subsidiaries, as well as the return to profitability or the elimination of loss-making operations at others.

**Associated undertakings**, accounted for using the equity method, made a negative contribution of CHF 0.6 million in 2003, against a deficit of CHF 3.0 million in 2002. In 2002, this amount consisted mainly of the negative contribution of Infotec S.A., which was sold at the end of that year. After booking amortisation of goodwill of CHF 0.6 million, **consolidated net profit** stood at CHF 43.4 million, a year-on-year rise of 8.6%, for a **net margin** of 5.5% of consolidated revenues, compared with 5.0% in 2002.

**Minority interests** were down sharply on the year, to CHF 5.0 million, or 11.6% of consolidated net profit, against CHF 8.1 million and 20.4% respectively in 2002. For the most part, this drop resulted from measures introduced during the period to reduce the weight of minority interests on the balance sheet, while enhancing business integration within the Group. The main measures undertaken in 2003 were the takeover of the minority interests of Tradition Securities And Futures S.A. in July, and the acquisition of a greater stake in TFS in the second half, taking it from 70.77% at the end of 2002 to 96.93% at year-end 2003. On the basis of the scope of consolidation existing at 31 December 2003, the 2003 pro forma minority interests would have been even lower, at CHF 2.9 million, or 6.7% of consolidated net profit.

**Net profit - Group share** in 2003 rose 20.6% to CHF 38.4 million, from CHF 31.8 million in the previous year, for a return on consolidated shareholders' equity of 19.6%. **Consolidated shareholders' equity** stood at CHF 223.7 million at 31 December 2003, CHF 202.4 million of which was Group share, reflecting the Group's exceedingly solid financial situation, with a cash position and marketable securities net of financial debts, of CHF 163.4 million.

Compagnie Financière Tradition reported a Company profit of CHF 17.7 million.

Compagnie Financière Tradition, a pure holding company, posted a net profit of CHF 17.7 million, up from CHF 11.5 million in 2002. This figure takes account of dividends received of CHF 10.5 million, other operating income of CHF 6.9 million, consisting mainly of royalties charged to Group companies, and net financial profit of CHF 6.7 million. Net operating expenses remained stable at CHF 5.0 million, compared with CHF 4.7 million in 2002, bringing Company shareholders' equity to CHF 121.2 million at year-end, against CHF 129.8 million at 31 December 2002.

# Outlook

Results for the 2003 financial year were broadly in line with Compagnie Financière Tradition's medium-term plan, which focuses on three core axes.

- In the industry as a whole, the opening of markets to an increasingly diversified clientele, persistent volatility and uncertainty, and the pursuit of financial innovation proved to be the main growth drivers. For Compagnie Financière Tradition, the past year also demonstrated the Group's ability to grow its market shares and pursue an active recruitment policy in key sectors such as interest rate derivatives and Asia. Many opportunities still remain to be tapped in terms both of product development and geographic spread. Against this backdrop, Compagnie Financière Tradition is targeting organic growth of 5% a year.
- The Group also has the potential for improved profitability, equivalent to an expansion in operating margin of several basis points. To achieve this goal, it will need to improve productivity, introduce greater flexibility in its remuneration system, and restructure the remaining loss-making operations, particularly those that do not fit into the Group's key business strategy. The time horizon will depend in part on external factors, such as sector consolidation, but also on leveraging greater synergies among the Group's core business segments.



- Finally, Compagnie Financière Tradition, which has grown in stature over the past six years from a “second tier player” to being one of the world's top three brokers, intends to play the most active role possible in the consolidation process under way in its sector. There are powerful incentives for the companies that will emerge: a more comprehensive range of services, increased liquidity for clients and an increase in the value of market information, which is directly correlated with market share in product lines, improved productivity at minimum marginal cost in terms of infrastructure and administrative support, and an easing of pressure on salaries.
- For brokers in the institutional OTC markets, and more generally for all transactional activities in the financial markets, this is of strategic importance, and the stakes are growing higher: the market capitalisation of the market leader, the growth in volumes in the futures markets, and the offensive of information suppliers seeking to capture the flow from electronic trading platforms, are just a few illustrations.

# Consolidated financial statements

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# Report of the Group auditors

## to the General Meeting of Compagnie Financière Tradition, Lausanne

As auditors of the Group, we have audited the consolidated financial statements (Balance sheet, Profit and loss account, Cash flow statement and Notes) of Compagnie Financière Tradition for the year ended 31 December 2003.

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 auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from 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 SWISS GAAP FER and comply with Swiss law.

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

Lausanne, 12 March 2004

**Ernst & Young Ltd**

**Hans Isler**

Swiss certified accountant  
(in charge of the audit)

**Stéphane Muller**

Swiss certified accountant



# Consolidated profit and loss account 2003

<i>in thousands of Swiss francs</i>	Notes	2003	2002
Net turnover	IV.1	786,132	791,505
Other net operating income	IV.2	27	6,408
<b>Operating income</b>		<b>786,159</b>	<b>797,913</b>
Employee compensation and benefits		-538,755	-546,630
Other operating expenses		-175,576	-184,437
Depreciation and amortisation		-10,739	-12,468
<b>Operating expenses</b>		<b>-725,070</b>	<b>-743,535</b>
<b>OPERATING PROFIT</b>		<b>61,089</b>	<b>54,378</b>
Net financial income	IV.3	9,630	23,277
<b>PROFIT BEFORE TAX</b>		<b>70,719</b>	<b>77,655</b>
Exceptional items	IV.4	-	-1,452
Tax	IV.5	-26,107	-31,998
<b>NET PROFIT OF CONSOLIDATED COMPANIES</b>		<b>44,612</b>	<b>44,205</b>
Associated undertakings	III.3	-590	-3,043
Goodwill amortisation		-641	-1,220
<b>CONSOLIDATED NET PROFIT</b>		<b>43,381</b>	<b>39,942</b>
• Group share		38,354	31,813
• Minority interests		5,027	8,129
Net profit - Group share in Swiss francs, per share of CHF 2.50 nominal value, based on weighted average number of shares outstanding.		7.10	6.00

# Consolidated balance sheet at 31 December 2003

## ASSETS

<i>in thousands of Swiss francs</i>	Notes	2003	2002
<b>CURRENT ASSETS</b>			
Cash	III.1	231	50
Call deposits	III.1	127,192	113,291
Short-term deposits	III.1	62,052	58,939
Trade debtors	III.2	93,329	101,245
Receivables linked to account holder activities	III.7	53,830	54,996
Other short-term receivables	III.2	30,685	36,193
Receivables from affiliated companies		1,269	636
Receivables from shareholder and associated companies	III.8	4,760	3,344
Marketable securities	III.1	42,639	55,344
Prepaid expenses and accrued income	III.2	18,016	13,619
<b>TOTAL CURRENT ASSETS</b>		<b>434,003</b>	<b>437,657</b>
<b>FIXED ASSETS</b>			
Other long-term receivables	III.2	8,219	9,135
Associated undertakings and other investments	III.3	3,361	9,639
Treasury shares	III.3	7,367	339
Tangible fixed assets			
• Installations and equipment	III.4	25,641	21,363
• Buildings	III.4	7,516	7,516
Intangible fixed assets	III.4	25,944	13,815
<b>TOTAL FIXED ASSETS</b>		<b>78,048</b>	<b>61,807</b>
<b>TOTAL ASSETS</b>		<b>512,051</b>	<b>499,464</b>

## LIABILITIES

<i>in thousands of Swiss francs</i>	Notes	2003	2002
<b>CREDITORS</b>			
Short-term bank borrowings	III.1	<b>66,965</b>	44,345
Short-term debts to affiliated companies		<b>1,082</b>	2,269
Short-term debts to shareholder and associated companies	III.8	<b>6,633</b>	16,334
Other short-term debts	III.5	<b>37,552</b>	37,999
Debts linked to account holder activities	III.7	<b>59,846</b>	53,877
Taxes payable	III.5	<b>18,431</b>	14,897
Accrued expenses and deferred income	III.5	<b>83,500</b>	82,596
Long-term financial debts	III.5	<b>1,730</b>	1,753
Contingency and loss provisions	III.6	<b>12,620</b>	10,282
<b>TOTAL CREDITORS</b>		<b>288,359</b>	264,352
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	III.9	<b>13,503</b>	13,262
Share premium		<b>19,879</b>	8,712
General reserve	III.10	<b>17,570</b>	17,570
Reserve for treasury shares		<b>7,367</b>	339
Special reserve		<b>3,100</b>	3,100
Other reserves		<b>15,300</b>	15,300
Consolidated reserves	III.11	<b>87,376</b>	105,990
Net profit - Group share		<b>38,354</b>	31,813
<b>SHAREHOLDERS' EQUITY - GROUP SHARE</b>		<b>202,449</b>	196,086
<b>Minority interests</b>		<b>21,243</b>	39,026
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>223,692</b>	235,112
<b>TOTAL LIABILITIES</b>		<b>512,051</b>	499,464

# Changes in consolidated shareholders' equity

<i>in thousands of Swiss francs</i>	Shareholders' equity at 01.01.02	Miscellaneous reserves	Dividends paid net of dividend on treasury shares	Increase in capital in 2002	Effect of changes in the basis of consolidation in 2002	Currency translation adjustments	Net profit 2002	Shareholders' equity at 31.12.02
Share capital	13,262	-	-	-	-	-	-	13,262
Share premium	8,712	-	-	-	-	-	-	8,712
General reserve	17,570	-	-	-	-	-	-	17,570
Reserve for treasury shares	937	-598	-	-	-	-	-	339
Special reserve	3,100	-	-	-	-	-	-	3,100
Other reserves	15,300	-	-	-	-	-	-	15,300
Consolidated reserves	130,175	598	-10,567	-	103	-14,319	31,813	137,803
<b>Total - Group share</b>	<b>189,056</b>	<b>-</b>	<b>-10,567</b>	<b>-</b>	<b>103</b>	<b>-14,319</b>	<b>31,813</b>	<b>196,086</b>
<b>Minority interests</b>	<b>42,440</b>	<b>-</b>	<b>-6,058</b>	<b>-</b>	<b>-2,949</b>	<b>-2,536</b>	<b>8,129</b>	<b>39,026</b>
<b>TOTAL</b>	<b>231,496</b>	<b>-</b>	<b>-16,625</b>	<b>-</b>	<b>-2,846</b>	<b>-16,855</b>	<b>39,942</b>	<b>235,112</b>

<i>in thousands of Swiss francs</i>	Shareholders' equity at 01.01.03	Miscellaneous reserves	Dividends paid net of dividend on treasury shares	Increase in capital in 2003	Effect of changes in the basis of consolidation in 2003	Currency translation adjustments	Net profit 2003	Shareholders' equity at 31.12.03
Share capital	13,262	-	-	241	-	-	-	13,503
Share premium	8,712	-	-	11,167	-	-	-	19,879
General reserve	17,570	-	-	-	-	-	-	17,570
Reserve for treasury shares	339	7,028	-	-	-	-	-	7,367
Special reserve	3,100	-	-	-	-	-	-	3,100
Other reserves	15,300	-	-	-	-	-	-	15,300
Consolidated reserves	137,803	-7,028	-37,783	-	-258	-5,358	38,354	125,730
<b>Total - Group share</b>	<b>196,086</b>	<b>-</b>	<b>-37,783</b>	<b>11,408</b>	<b>-258</b>	<b>-5,358</b>	<b>38,354</b>	<b>202,449</b>
<b>Minority interests</b>	<b>39,026</b>	<b>-</b>	<b>-1,928</b>	<b>-</b>	<b>-22,366</b>	<b>1,484</b>	<b>5,027</b>	<b>21,243</b>
<b>TOTAL</b>	<b>235,112</b>	<b>-</b>	<b>-39,711</b>	<b>11,408</b>	<b>-22,624</b>	<b>-3,874</b>	<b>43,381</b>	<b>223,692</b>

# Consolidated cash flow statement

<i>in thousands of Swiss francs</i>	2003	2002
<b>Cash flow from operating activities</b>		
Group profit before tax and associated undertakings	70,078	74,983
<b>Elimination of income and expenses of no material effect on cash flow and/or not related to activities:</b>		
Net financial income and exchange gain and losses	-9,630	-23,277
Depreciation and amortisation	11,380	13,688
Exceptional items	-	1,452
<b>Net changes relating to operating activities before change in operating assets and liabilities</b>	71,828	66,846
Changes in working capital	-1,923	-6,038
<b>Cash inflow from operating activities</b>	69,905	60,808
Tax paid	-22,573	-36,704
<b>Net cash inflow from operating activities</b>	47,332	24,104
<b>Cash flow from investment activities</b>		
Purchase/sale of marketable securities	12,705	-6,217
Purchase/sale of treasury shares	-1,199	420
Purchase/sale of non-consolidated investments	3,883	-2,664
Net financial income	2,792	26,904
Net acquisition of fixed assets	-12,424	-10,295
Net acquisition of intangible assets	-15,312	-3,594
<b>Net cash inflow / outflow from investment activities</b>	-9,555	4,554
<b>Cash flow from financing activities</b>		
Changes in receivables and debts related to shareholders and associated companies	-12,228	742
Increase in capital	11,408	-
Effect of changes in the basis of consolidation	67	-8,922
Dividends and other payments outside Group	-1,928	-6,058
Dividends paid by the Company	-37,783	-10,567
<b>Net cash outflow from financing activities</b>	-40,464	-24,805
Exceptional income affecting cash flow	-	-1,404
Currency translation adjustments	-2,738	-15,539
<b>Net decrease in cash and cash equivalents (cf. Note III.1)</b>	-5,425	-13,090

# Notes to the consolidated financial statements

## I. ACCOUNTING POLICIES

### I.1 Principles of consolidation

The consolidated financial statements have been prepared in compliance with SWISS GAAP FER, in accordance with the listing rules of the Swiss Stock Exchange, and include those of Compagnie Financière Tradition and its affiliates.

General accounting conventions were applied, respecting the conservatism principle, in accordance with generally accepted accounting standards for the preparation of consolidated statements.

#### Consolidation methods

Interests are fully consolidated when Compagnie Financière Tradition, directly or indirectly, holds majority voting rights in a company or owns a controlling interest in it. Minority interests in the shareholders' equity and net income of these companies are presented separately in the consolidated balance sheet and profit and loss account.

The financial statements of jointly controlled companies are consolidated using the proportionate consolidation method. Compagnie Financière Tradition's share of jointly controlled entities is stated on a line-by-line basis in the consolidated balance sheet and profit and loss account.

Affiliated companies in which Compagnie Financière Tradition has a significant but not controlling influence are consolidated using the equity method. "Significant influence" is presumed when Compagnie Financière Tradition directly or indirectly holds over 20.00% of the equity voting rights in these companies. Companies with totally different activities from those of the Group, whose inclusion could prejudice the fair presentation of the Group's consolidated financial statements, are also consolidated using the equity method.

With the exception of recently created companies of strategic importance to the Group, companies in which Compagnie Financière Tradition has exclusive or joint control or significant influence, but one which is not significant in terms of turnover or balance sheet total within the consolidation, are not included in the consolidated accounts.

#### Elimination of intercompany transactions

When preparing the consolidated statements, the results of intragroup transactions are eliminated if they are of material importance.

Intercompany receivables and debts, and income and expenses of fully consolidated companies are eliminated fully, as are the results of sales of assets between consolidated companies and provisions for depreciation recognised on consolidated investments, and loans and advances to consolidated affiliates.

### I.2 Goodwill

The difference between the acquisition cost of newly consolidated company shares and the share capital acquired in such a company at the date of acquisition is divided between:

- premium (or negative premium) concerning certain identifiable items,
- goodwill (or negative goodwill) for the non-attributable balance.

Premium (or negative premium) is booked using the same rules as the foregoing items.

Goodwill is amortised over a maximum of ten years. However, a reserve for depreciation may be established if the performance of the acquired company is not in line with expectations.

Negative goodwill is recoverable on an individual basis over a period not exceeding five years, depending on the profitability of the new company.

## Notes to the consolidated financial statements

### I.3 Foreign currencies, foreign exchange and interest rate transactions

#### Currency translation

At the time of consolidation, financial statements of foreign affiliates prepared in foreign currencies are translated into Swiss francs following the current rate method:

- assets and liabilities are translated at the exchange rate effective on the date of consolidation,
- income and expenses are translated at the average exchange rate for the year.

Foreign exchange differences resulting from variations in exchange rates from one year to the next, as applied to the net worth of the companies, and the difference between the average rate over the year and the closing rate applied to the results of such subsidiaries, are taken directly to shareholders' equity and dealt with under "Currency translation adjustments".

#### Foreign exchange transactions

Foreign exchange gains and losses are recorded under "Net financial income".

Foreign exchange risk arising from brokerages listed or billed in foreign currencies is evaluated and, if necessary, hedged by each affiliate of Compagnie Financière Tradition, in accordance with prudent practices. These entities only conduct forward foreign exchange transactions with highly reputable financial institutions.

These hedging transactions are booked in the same manner as hedged transactions.

#### Interest rate transactions

Compagnie Financière Tradition and its subsidiaries are not significantly affected by fluctuations in interest rates since all their fixed rate monetary assets and liabilities are short-term.

### I.4 Valuation methods

The main valuation methods used are as follows:

#### Recognition of income

Brokerage revenues are recognised in the profit and loss account under specific income and expenses at the time of the transaction and recorded after deduction of correspondents' fees.

#### Current assets and short-term debts

Current assets and short-term debts include receivables and debts payable or renewable within a year. Receivables are entered in the balance sheet after deduction of economically necessary provisions.

#### Accrued and deferred items

Accrued items are calculated according to the cut-off principle, with expenses and income allocated proportionally in the year in which they arise.

#### Marketable securities

Marketable securities are recorded in the balance sheet at their acquisition cost, after deduction of economically necessary provisions, valued on the basis of their stock market price, for listed securities, or probable realisable value, for unlisted securities.

#### Long-term investments

Long-term investments are recorded in the balance sheet at their acquisition cost, after deduction of economically necessary provisions, valued on the basis of their stock market price, for listed securities, or probable marketable value, for unlisted securities.

#### Tangible fixed assets

Tangible fixed assets are stated at cost and depreciated on a straight-line method over their estimated useful life as follows:

- Fixtures and installations: between 5 and 10 years,
- Computer and telecom. equipment: between 3 and 5 years,
- Other tangible fixed assets: between 3 and 5 years.

# Notes to the consolidated financial statements

## Intangible fixed assets

Intangible fixed assets are stated at cost and depreciated on a straight-line basis over their useful economic life, over a maximum of ten years.

## Other balance sheet items

Other balance sheet items are booked at face value, after deducting economically necessary provisions and amortisation.

## Provisions for future and deferred taxes

Provisions for taxes are calculated on the basis of profits for the financial year in accordance with applicable local tax regulations.

Provision is made for deferred taxes using the variable carry-over method. Provisions include deferred taxes calculated on all timing differences outstanding at the close of the financial year, on the basis of rates ruling at the balance sheet date in each country, or rates known in advance for future financial years if those timing differences are of material importance.

Deferred tax assets are recognised when it is considered probable that they will be recovered in the foreseeable future because of the existence of future profits. Should this not be the case, they are booked at the amount of deferred tax liabilities for each company considered individually.

## Debtor minority interests

Where, following losses, the share attributable to minority interests of a fully consolidated company becomes negative, the excess and subsequent losses chargeable to minority interests are deducted from majority interests, unless partners or minority shareholders have a formal obligation to make good such losses. If the consolidated company subsequently returns to profit, the majority interests are credited with the full profits until the portion they assumed of losses chargeable to minority interests has been fully eliminated.

## Pension and other post-retirement benefits

Defined benefit or defined contribution pension plans have been set up, depending on the country in which the Group has operations and local pension regulations.

Under defined contribution plans, contributions from employees and companies of the Group are paid to approved pension institutions.

An actuarial valuation of defined benefit plans is carried out each year by independent experts, and a provision is made and adjusted accordingly.

Other pension commitments, such as pension indemnity, are subject to an actuarial valuation and are fully provisioned.

## Derivative financial instruments

Derivative financial instruments outstanding at the balance sheet date are shown in the notes to the consolidated financial statements. Hedging transactions are valued on the same basis as hedged transactions. Other off-balance sheet transactions in derivative instruments are valued at the market price at the balance sheet date. Unrealised gains and losses arising from derivative instruments traded on regulated interest rate, currency and equity markets are recognised under financial income. A provision is made to cover unrealised losses determined by homogeneous portfolio of operations for OTC traded instruments.



## Notes to the consolidated financial statements

### II. BASIS OF CONSOLIDATION

#### II.1 Basis of consolidation at 31 December 2003

The table below shows the consolidated companies held, directly or indirectly, by Compagnie Financière Tradition and the method of consolidation used for each company:

	New companies	Country	Controlling interest	Equity interest	Capital in thousands	Method FCM/PCM/ EM
<b>COMPAGNIE FINANCIÈRE TRADITION</b>		Switzerland			CHF 13,503	Consolidating company
<b>I. FINANCIAL COMPANIES</b>						
<b>TRADITION SERVICE HOLDING S.A., LAUSANNE</b>						
		Switzerland	100.00%	100.00%	CHF 21,000	FCM
		United Kingdom	100.00%	100.00%	GBP 15,050	FCM
		United Kingdom	100.00%	100.00%	GBP 9,160	FCM
		United Kingdom	100.00%	100.00%	GBP n/s	FCM
		United Kingdom	100.00%	100.00%	EUR 10,621	FCM
		Belgium	99.95%	99.95%	EUR 149	FCM
		Belgium	100.00%	99.95%	EUR 497	FCM
		Luxembourg	99.93%	99.93%	EUR 372	FCM
		France	100.00%	100.00%	EUR 4,575	FCM
		Germany	100.00%	100.00%	EUR 547	FCM
		Switzerland	100.00%	100.00%	CHF 100	FCM
		Luxembourg	100.00%	100.00%	EUR 372	FCM
		Italy	100.00%	100.00%	EUR 1,550	FCM
		Portugal	20.00%	20.00%	EUR 4,092	EM
		U.S.A.	100.00%	100.00%	USD 14,500	FCM
		U.S.A.	100.00%	100.00%	USD n/s	FCM
		U.S.A.	75.00%	75.00%	USD 1,397	FCM
		U.S.A.	100.00%	100.00%	USD n/s	FCM
		U.S.A.	100.00%	100.00%	USD n/s	FCM
		U.S.A.	100.00%	100.00%	USD n/s	FCM
		U.S.A.	35.00%	35.00%	USD 75	EM
		U.S.A.	91.00%	91.00%	USD 50	FCM
		Argentina	100.00%	100.00%	ARS 12	FCM
		Japan	55.34%	55.34%	JPY 300,000	FCM
		Japan	100.00%	59.81%	JPY 10,000	FCM
		Japan	37.40%	20.70%	JPY 267,500	EM
		Hong Kong	100.00%	100.00%	HKD 25,000	FCM
		Singapore	100.00%	100.00%	SGD 1,200	FCM
		Panama	100.00%	100.00%	CHF 1,790	FCM
		✓ Australia	100.00%	100.00%	AUD n/s	FCM
<b>HOLDING TRADITION CLEARING, LAUSANNE</b>						
		Switzerland	100.00%	100.00%	CHF 100	FCM
		United Kingdom	100.00%	100.00%	GBP 1,000	FCM
<b>HOLDING TRADITION SECURITIES S.A., LAUSANNE</b>						
		Switzerland	100.00%	100.00%	CHF 250	FCM
		Germany	91.07%	92.18%	EUR 6,125	FCM
		Luxembourg	100.00%	100.00%	EUR 500	FCM
<b>Tradition Securities And Futures S.A., Paris, and branches in London and Lausanne</b>						
		France	99.87%	99.87%	EUR 13,325	FCM
		✓ France	99.94%	99.81%	EUR 100	FCM
		France	55.00%	54.93%	EUR 1,976	FCM

FCM: Full consolidation method - PCM: Proportionate consolidation method - EM: Equity method.

# Notes to the consolidated financial statements

	New companies	Country	Controlling interest	Equity interest	Capital in thousands	Method FCM/PCM/ EM
<b>TFS, LAUSANNE</b>		Switzerland	96.93%	96.93%	CHF 3,700	FCM
<i>Tradition Financial Services Ltd, London and branch in Tel Aviv</i>		United Kingdom	100.00%	96.93%	GBP 250	FCM
<u>TFS-ICAP Holdings Ltd, London</u>		United Kingdom	50.00%	53.31%	GBP 2,470	PCM
<u>TFS-ICAP Ltd, London</u>		United Kingdom	51.00%	26.66%	GBP 20	FCM
<u>TFS-ICAP Currency Options Ltd, London</u>		United Kingdom	100.00%	26.66%	GBP 550	FCM
<u>TFS Currency Options Ltd, London</u>		United Kingdom	100.00%	26.66%	GBP 5	FCM
<u>Intercapital Currency Options Ltd, London</u>		United Kingdom	100.00%	26.66%	GBP 5	FCM
<u>TFS Derivatives Ltd, London</u>		United Kingdom	100.00%	96.93%	GBP 1,200	FCM
<u>Equitek Capital Ltd, London</u>		United Kingdom	100.00%	96.93%	GBP 1,300	FCM
<u>TFS Futures &amp; Options (Pty) Ltd, Johannesburg</u>		South Africa	100.00%	96.93%	ZAR 250	FCM
<u>TFS Securities (Pty) Ltd, Johannesburg</u>		South Africa	100.00%	96.93%	ZAR 1,000	FCM
<u>Tradition Financial Services GmbH, Frankfurt</u>		Germany	100.00%	96.93%	EUR 153	FCM
<i>Tradition Financial Services Inc., New York</i>		U.S.A.	100.00%	96.93%	USD 50	FCM
<u>TFS Derivatives Corp., New York</u>		U.S.A.	100.00%	96.93%	USD 95	FCM
<u>TFS-ICAP Holdings LLC, New York</u>		U.S.A.	50.00%	53.31%	USD n/s	PCM
<u>TFS-ICAP LLC, New York</u>		U.S.A.	51.00%	26.66%	USD n/s	FCM
<u>TFS Energy LLC, Stamford</u>		U.S.A.	53.00%	51.37%	USD n/s	FCM
<u>TFS Energy Futures LLC, Stamford</u>		U.S.A.	100.00%	51.37%	USD 35	FCM
<u>TFS Blackwood LLC, New York</u>		U.S.A.	93.75%	90.87%	USD 1,388	FCM
<u>TFS Blackwood Ltd, London</u>		United Kingdom	93.75%	90.87%	GBP n/s	FCM
<u>Equitek Capital Inc., Delaware</u>		U.S.A.	100.00%	96.93%	USD n/s	FCM
<u>Equitek Capital LLC, Delaware</u>	✓	U.S.A.	50.00%	48.47%	USD n/s	FCM
<u>Capstone Global Energy LLC, Houston</u>		U.S.A.	57.50%	55.74%	USD -	FCM
<u>TFS Australia Pty Ltd, Sydney</u>		Australia	100.00%	96.93%	AUD 5	FCM
<u>Tradition Financial Services Japan Ltd, Tokyo</u>		British Virgin Islands	100.00%	96.93%	USD 50	FCM
<u>Tradition Financial Services (Hong Kong) Ltd, Hong Kong</u>		Hong Kong	100.00%	96.93%	HKD 200	FCM
<u>TFS Energy (S) Pte Ltd, Singapore</u>		Singapore	100.00%	96.93%	SGD 100	FCM
<u>TFS Currencies Pte Ltd, Singapore</u>		Singapore	100.00%	96.93%	SGD 1,000	FCM
<i>TRC Lausanne, Lausanne</i>		Switzerland	100.00%	96.93%	CHF 100	FCM
<u>The Recruitment Company Holdings Inc., Delaware</u>		U.S.A.	79.00%	76.58%	USD n/s	FCM
<u>TRC Recruitment Ltd, London</u>		United Kingdom	100.00%	76.58%	GBP 1	FCM
<u>The Recruitment Company Inc., New York</u>		U.S.A.	100.00%	76.58%	USD n/s	FCM
<u>The Recruitment Company Pty Ltd, Sydney</u>		Australia	100.00%	76.58%	AUD n/s	FCM
<u>The Recruitment Company Ltd, Tokyo</u>		Tokyo	100.00%	76.58%	JPY 5,000	FCM
<u>The Recruitment Company Ltd, Hong Kong</u>		Hong Kong	100.00%	76.58%	HKD 10	FCM
<u>Equitek Capital Limited, Georgetown</u>		Cayman Islands	50.00%	48.62%	USD -	FCM
<u>Cofitra Investments Inc., British Virgin Islands</u>		British Virgin Islands	100.00%	100.00%	USD 5,000	FCM
<b>2. NON-FINANCIAL COMPANIES</b>						
<u>Tradcom Management, Lausanne</u>		Switzerland	100.00%	100.00%	CHF 100	FCM
<u>Tradifcom International, Lausanne</u>		Switzerland	100.00%	100.00%	CHF 100	FCM
<u>StreamingEdge.com Inc., New Jersey</u>		U.S.A.	60.00%	60.00%	USD 1,000	EM
<u>StreamingEdge (Canada) Inc., Toronto</u>		Canada	100.00%	60.00%	CAD n/s	EM
<u>GIE VIEL Gestion</u>	✓	France	78.05%	77.95%	EUR -	FCM
<u>GIE VCF Gestion</u>	✓	France	90.00%	89.89%	EUR -	FCM

FCM: Full consolidation method - PCM: Proportionate consolidation method - EM: Equity method.

## Notes to the consolidated financial statements

All affiliates and major companies in which Compagnie Financière Tradition has a direct or indirect equity interest are active in the brokerage of financial products and their derivatives, with the exception of Tradcom Management and Tradicom International, service providers in the telecommunications and IT sectors working exclusively for the Group. StreamingEdge.com Inc. and its Canadian subsidiary, developers of online transactional platforms, were consolidated using the equity method since the nature of their activities was completely different from those of the Group.

### II.2 Changes in the basis of consolidation

The main changes in the basis of consolidation in 2003 were as follows:

#### TFS

*TFS:* At 31 December 2002, Compagnie Financière Tradition held a 70.77% stake in TFS, Lausanne. In July 2003, it acquired an additional 3.16% interest, or 43,494 shares, for a consideration of €1.5 million (CHF 2.4 million).

On 15 October and 23 November 2003, Compagnie Financière Tradition entered into a series of agreements with the staff of the TFS Group, whereby it agreed to acquire the 400,520 shares held by the staff, 92,944 of which were newly issued following the exercise of employee share options. The purchase consideration of this stake consisted of a cash payment of €10.3 million (CHF 15.9 million), part of which is payable on 30 June 2004 (cf. Note III.5), and a payment in the form of 96,669 new Compagnie Financière Tradition shares, issued on 24 November 2003.

Finally, Compagnie Financière Tradition increased its stake in TFS in November and December 2003, through market purchases. At 31 December 2003, it held 1,434,637 TFS shares, or 96.93% of the company's capital.

Goodwill arising on all these operations represented a total of CHF 13.7 million, and will be amortised over ten years from the date of acquisition of each of the blocks.

*TFS-ICAP-Volbroker:* On 3 December 2001, TFS concluded an agreement with Volbroker to merge its brokerage operations in currency options, handled jointly with ICAP under the name of TFS-ICAP, with those of Volbroker, the most active electronic trading platform in these products. Under the terms of the agreement, which covers seven countries, TFS-ICAP was to receive all profits generated by the new entity during the first year of operations, from 1 December 2001 to 30 November 2002. Between 1 December 2002 and 30 November 2003, once the consolidated pre-tax profit of these operations exceeded USD 9.5 million (CHF 12.8 million), their contribution was divided equally between TFS-ICAP and Volbroker. Since 1 December 2003, profits have been split equally between TFS-ICAP and Volbroker.

Currency option operations in London and New York are conducted by two specific companies, TFS-ICAP Ltd and TFS-ICAP LLC, which are themselves controlled at 51.00% (and therefore fully consolidated) by two holding companies, TFS-ICAP Holdings Ltd and TFS-ICAP Holdings LLC. These two companies are jointly controlled by the TFS and ICAP Groups and are accounted for using the proportionate consolidation method.

The Singapore and Tokyo currency options activities were formalised by specific joint venture agreements, whereby TFS Currencies Pte Ltd, Singapore, and Tradition Financial Services Japan Ltd, Tokyo, recognise 25.0% of income and expenses on currency options transactions conducted in these two countries.

In Sydney, Frankfurt and Copenhagen, joint ventures between TFS, ICAP and Volbroker had not yet been finalised at the end of 2003. Accordingly, the consolidated accounts were restated, to recognise TFS' share in the results of the Copenhagen and Sydney operations, amounting to 27.5% and 25.0% respectively, and its partners' share of the currency options results of its German subsidiary, Tradition Financial Services GmbH, of 72.5%. This restatement resulted in a net expense of CHF 695,000 in 2003 (net income of CHF 118,000 in 2002), carried under "Other net operating income".

*Equitek Capital LLC:* This company, capitalised at USD 100, was created in 2003 to manage future Equitek investment funds, which should have completed their capital raising in the first quarter of 2004. The company, 50.00% owned by Tradition Financial Services Inc., was inactive throughout 2003.

#### TSH

*Finacor & Associés S.A.:* Under an agreement signed 24 July 2003, Finacor Belgique S.A. took over the remaining 50.00% of the capital of Finacor & Associés S.A. on 31 July, bringing its holding in the company to 100.00%. This acquisition was made for a consideration of one euro, after payment of an exceptional grant of €135,000 (CHF 206,000) to Finacor & Associés S.A. by its former shareholder, Petercam S.A. Negative goodwill of €90,000 (CHF 137,000) arising on the acquisition was recognised in the profit and loss account at 31 December 2003. Finacor & Associés S.A. was accounted for using the proportionate consolidation method until 31 July 2003, and has since been fully consolidated.

*Tradition Orient FX Co. Ltd:* On 27 September 2003, this company increased its share capital by JPY 167.5 million, from JPY 100.0 million to JPY 267.5 million. Meitan Tradition Co. Ltd contributed JPY 50.0 million to the increase, reducing its holding in the company to 37.40% from 50.00%. Accordingly, Tradition Orient FX Co. Ltd, which was accounted for using the proportional consolidation method until 27 September 2003, has since been accounted for using the equity method. The operation resulted in a dilution loss of JPY 13.4 million, or CHF 156,000, recognised under "Other net financial income" at 31 December 2003. The company was renamed Gaitame.com Co. Ltd on 1 December 2003.

# Notes to the consolidated financial statements

*Tradition Australia Pty Ltd.*: A new company, capitalised at AUD 100 and wholly owned by TSH, was created in December 2002 to handle TSH's new Sydney-based broking activities in interest rates. The company was included in the consolidated accounts of Compagnie Financière Tradition at 31 December 2003.

*Arbitrage Change S.A.*: Under an agreement signed on 19 December 2003, Arbitrage Change S.A. took over the assets, liabilities and intangible business assets of Tradition S.A., Luxembourg branch. This restructuring of Compagnie Financière Tradition's activities in Luxembourg has no material impact on the consolidated accounts.

## HTS

*Finacor Rabe AG*: The capital of Finacor Rabe AG decreased from €6,250,000 at 31 December 2002 to €6,125,000 at 31 December 2003, after the nominal value of its shares were halved by loss absorption of €3,125,000, followed by an increase in capital of €3,000,000, fully subscribed by Holding Tradition Securities S.A. This brought Holding Tradition Securities S.A.'s controlling interest and equity interest from 82.50% to 91.07% and from 84.51% to 92.18% respectively. Goodwill arising on this operation amounted to CHF 303,000.

*Tradition Securities And Futures S.A. (TSAF)*: At 31 December 2002, Holding Tradition Securities S.A. (HTS) held 77.10% of TSAF. Under an agreement dated 1 July 2003, HTS acquired an 21.78% interest in TSAF, which was complemented by an additional stake of 0.99% during the second half of the year, bringing its holding to 99.87% at year-end.

TSAF was merged by acquisition, on 31 December 2003, with VIEL Tradition S.A., a wholly owned subsidiary of Finance 2000 S.A. Following the merger-acquisition, VIEL Tradition S.A., now renamed Tradition Securities And Futures S.A., is held at 20.41% by Finance 2000 and at 79.46% by HTS. The remaining 0.13% of the company is held by shareholders outside the Group. It created a new subsidiary at end-2003, *VIEL Tradition S.A.*, capitalised at €100,000. This new company, wholly-owned by Tradition Securities And Futures S.A., had no activities at 31 December 2003.

Two French intercompany ventures (GIEs) with French capital, *VIEL Gestion* and *VCF Gestion*, held respectively at 78.05% and at 90.00% by Tradition Securities And Futures S.A. at 31 December 2003, were included in the consolidated accounts of Compagnie Financière Tradition at that date.

Finally, Compagnie Financière Tradition wound up three dormant companies in 2003 - *Tradition Information Services Ltd*, *Tradition Australia Ltd* and *Tradition Holding (U.S.A.) Inc.* - and disposed of its 70.00% stake in *Tradition Securities (Kenya) Ltd*.

## II.3 Non-consolidated majority shareholdings

Four companies were excluded from the basis of consolidation at 31 December 2003 as they had no material effect on Group results:

- *Tradition CIS LLC*, Moscow, which ceased operations at the end of 1998. Tradition Service Holding S.A.'s investment in this company and the financing provided were fully provisioned at 31 December 2003,
- *Tradcom International*, a company capitalised at CHF 250,000, 33.33% held by Tradcom Management. This company, created at the end of 1998, had ceased all activities at 31 December 2000, and was in liquidation at 31 December 2003. Compagnie Financière Tradition's investment in this company and the financing provided were provisioned for an amount of CHF 291,000 at 31 December 2003,
- *Current Capital LLC* and *Current Capital LP*, ceased operations in the first quarter of the year, and were in the process of being wound up at 31 December 2003.

## Notes to the consolidated financial statements

### III. NOTES TO THE CONSOLIDATED BALANCE SHEET

#### III.1 Cash and cash equivalents

##### Net liquid assets

<i>in thousands of Swiss francs</i>	2003	2002
Cash and call deposits	127,423	113,341
Short-term deposits	62,052	58,939
Short-term bank borrowings	-66,965	-44,345
Net cash at 31 December	122,510	127,935
Net cash at 1 January	127,935	141,025
<b>Net cash outflow during the year</b>	<b>-5,425</b>	<b>-13,090</b>

This change in cash position during the year is detailed in the consolidated cash flow statement.

##### Marketable securities

The marketable securities portfolio comprised the following:

<i>in thousands of Swiss francs</i>	2003	2002
Short-term cash products	35,836	43,277
Bonds	1,239	704
Shares	4,370	9,968
Investment funds	2,476	2,557
<b>GROSS TOTAL</b>	<b>43,921</b>	<b>56,506</b>
Provisions for depreciation	-1,282	-1,162
<b>NET TOTAL</b>	<b>42,639</b>	<b>55,344</b>

#### III.2 Receivables and other assets

##### Trade debtors

These are short-term receivables representing a net amount of CHF 93,329,000 at 31 December 2003, compared to CHF 101,245,000 the previous year. They are booked at face value after deduction of economically necessary provisions.

##### Other short-term receivables

<i>in thousands of Swiss francs</i>	2003	2002
Employee current accounts	10,011	7,168
Public authorities	5,259	4,760
Security deposits	4,169	2,785
Other short-term receivables	11,246	21,480
<b>TOTAL</b>	<b>30,685</b>	<b>36,193</b>

These receivables are booked at their face value, after deduction of economically required reserves.

At 31 December 2002, Compagnie Financière Tradition held receivables of CHF 4,387,000 on its former subsidiary, Infotec S.A., which was sold to Edipresse S.A. at the end of 2002, and receivables of CHF 3,633,000 on Edipresse S.A. These two amounts, totalling CHF 8,020,000, booked under "Other short-term receivables" at 31 December 2002, were repaid in January 2003.

##### Prepaid expenses and accrued income

<i>in thousands of Swiss francs</i>	2003	2002
Prepaid expenses	9,830	9,513
Deferred tax asset	7,311	3,795
Other accrued income	875	311
<b>TOTAL</b>	<b>18,016</b>	<b>13,619</b>

##### Other long-term receivables

This item contains receivables held by Compagnie Financière Tradition and its subsidiaries from its former ultimate majority shareholders, Comipar, Paris, and Banque Pallas Stern, Paris. These receivables, totalling CHF 8,219,000 at 31 December 2003 (CHF 9,135,000 at 31 December 2002) are guaranteed by VIEL et Compagnie Finance, ultimate majority shareholder of Compagnie Financière Tradition. Since the beginning of the liquidation, Compagnie Financière Tradition and its subsidiaries have received liquidation dividends totalling CHF 17,125,000, equivalent to 66.0% of all stated receivables.

# Notes to the consolidated financial statements

## III.3 Financial investments

### Associated undertakings and other investments

This item includes Compagnie Financière Tradition's equity holdings in associated companies, consolidated using the equity method, and in companies where it holds the majority shareholding but which are not included in the basis of consolidation (cf. Note II.3). It also includes minority interests acquired with a view to a long-term holding.

This item may be summarised as follows:

<i>in thousands of Swiss francs</i>	2003	2002
<b>Associated undertakings</b>		
Govdesk LLC	835	460
Fincor SGPS	744	964
StreamingEdge.com Inc.	49	787
Current Capital LP	-	418
Gaitame.com Co. Ltd	1,476	-
	<b>3,104</b>	2,629
<b>Other investments</b>		
Tradition Australia Ltd	-	850
Tradition CIS LLC	230	230
Tradcom International	85	85
Eurobrokers Finacor Ltd	-	6,672
Other investments	1,379	2,339
	<b>1,694</b>	10,176
<b>GROSS TOTAL</b>	<b>4,798</b>	12,805
Provisions for depreciation	-1,437	-3,166
<b>NET TOTAL</b>	<b>3,361</b>	9,639

### Treasury shares

At 31 December 2003, the Company held 63,748 treasury shares with a nominal value of CHF 2.50. These shares were acquired at a purchase value of CHF 7,367,000. Movements on treasury shares during the period were as follows:

	<b>Book value</b> <i>in thousands of Swiss francs</i>	<b>Acquisition cost or realisation price</b> <i>in thousands of Swiss francs</i>	<b>No. of shares</b> <i>of CHF 2.50 nominal value</i>
<b>Situation at 1 January 2003</b>	<b>339</b>	<b>339</b>	<b>7,308</b>
Acquisitions	28,630	28,630	360,640
Shares paid out as dividends	-13,707	-16,947	-207,930
Sales	-7,895	-10,484	-96,270
Capital gains for the year	-	5,829	-
<b>Situation at 31 December 2003</b>	<b>7,367</b>	<b>7,367</b>	<b>63,748</b>

An analysis of the Group's share in the results of associated undertakings is as follows:

<i>in thousands of Swiss francs</i>	2003	2002
Infotec S.A.	-	-2,278
Govdesk LLC	663	262
Fincor SGPS	-279	223
StreamingEdge.com Inc.	-517	-11
Current Capital LP	-319	-1,239
Gaitame.com Co. Ltd	-138	-
<b>TOTAL</b>	<b>-590</b>	-3,043

Interests in Infotec S.A. and Eurobrokers Finacor Ltd were sold at end-2002 and in the first quarter of 2003 respectively. Tradition Australia Ltd was wound up in 2003. Finally, Current Capital LP was in the process of being wound up at 31 December 2003, and was recorded at nil value in the consolidated accounts at that date (cf. Note II.3).

## Notes to the consolidated financial statements

### III.4 Tangible and intangible fixed assets

#### Tangible fixed assets

Consolidated tangible fixed assets of Compagnie Financière Tradition are as follows:

<i>in thousands of Swiss francs</i>	2003			2002		
	Gross	Amort.	Net	Gross	Amort.	Net
Land and buildings	7,516	-	7,516	7,516	-	7,516
Fixtures and installations	37,148	26,454	10,694	41,269	33,159	8,110
Computer and telecom. equipment	41,253	26,946	14,307	34,558	22,287	12,271
Other tangible fixed assets	3,095	2,455	640	3,225	2,243	982
<b>TOTAL</b>	<b>89,012</b>	<b>55,855</b>	<b>33,157</b>	<b>86,568</b>	<b>57,689</b>	<b>28,879</b>

The item "Land and buildings" includes buildings in Lausanne owned by Compagnie Financière Tradition. These land and buildings are recorded on the balance sheet at their original cost price at the time of construction in 1971, i.e. CHF 7,516,000, which is significantly lower than their market value at 31 December 2003. No depreciation has been made on this property.

Changes in tangible fixed assets in 2003 and 2002 were as follows:

<i>in thousands of Swiss francs</i>	2003	2002
<b>Gross value at 1 January</b>	<b>86,568</b>	96,266
Changes in the basis of consolidation	3,001	120
Reclassifications	717	-
Translation adjustments	-915	-8,262
Acquisitions during the year	13,002	10,258
Disposals and write-offs	-13,361	-11,814
<b>Gross value at 31 December</b>	<b>89,012</b>	86,568
<b>Cumulative depreciation at 1 January</b>	<b>57,689</b>	67,028
Changes in the basis of consolidation	2,249	83
Reclassifications	610	-
Translation adjustments	-962	-5,764
Depreciation for the year	9,052	8,156
Disposals and write-offs	-12,783	-11,814
<b>Cumulative depreciation at 31 December</b>	<b>55,855</b>	57,689
<b>Net value at 31 December</b>	<b>33,157</b>	28,879

Fire insurance value at 31 December 2003 stood at CHF 100,457,000 for installations and equipment and CHF 18,383,000 for buildings (CHF 80,867,000 and CHF 18,104,000 respectively at 31 December 2002).

Leasing commitments not carried on the balance sheet amounted to CHF 8,697,000 at 31 December 2003 (CHF 6,507,000 at 31 December 2002).

# Notes to the consolidated financial statements

## Intangible fixed assets

Intangible fixed assets comprised the following:

<i>in thousands of Swiss francs</i>	2003			2002		
	Gross	Amort.	Net	Gross	Amort.	Net
Telephone rights	1,871	1,848	23	1,917	1,647	270
Intangible business assets	1,671	934	737	1,664	694	970
Goodwill	25,425	3,865	21,560	11,382	2,662	8,720
Other intangible fixed assets	14,703	11,079	3,624	15,197	11,342	3,855
<b>TOTAL</b>	<b>43,670</b>	<b>17,726</b>	<b>25,944</b>	<b>30,160</b>	<b>16,345</b>	<b>13,815</b>

## Goodwill

Goodwill arising on acquisitions was as follows:

<i>in thousands of Swiss francs</i>	2003				2002
	Gross	Cumulative amort.	Net	Amort. for the period	Net
TFS	17,151	1,587	15,564	476	2,348
StreamingEdge.com Inc.	691	253	438	69	507
Govdesk LLC	487	179	308	52	401
Finacor Rabe AG	3,582	821	2,761	354	2,814
Finacor Deutschland GmbH	3,198	709	2,489	308	2,650
Capstone Global Energy LLC	316	316	-	-	-
<b>TOTAL</b>	<b>25,425</b>	<b>3,865</b>	<b>21,560</b>	<b>1,259</b>	<b>8,720</b>

## III.5 Accrued expenses and deferred income

### Other short-term debts

This item may be summarised as follows:

<i>in thousands of Swiss francs</i>	2003	2002
Public authorities	17,807	13,356
Trade creditors	64	5,711
Other short-term debts	19,681	18,932
<b>TOTAL</b>	<b>37,552</b>	<b>37,999</b>

The heading "Other short-term debts" comprises a debt of CHF 5,159,000 to staff or former staff of the TFS Group, a subsidiary of Compagnie Financière Tradition. This debt arose in the fourth quarter of 2003 on the purchase of TFS shares held by the staff (cf. Note II.2), and is repayable on 30 June 2004.

### Accrued expenses and deferred income

This item is broken down as follows:

<i>in thousands of Swiss francs</i>	2003	2002
Employee compensation and benefits	72,743	59,902
Other miscellaneous accrued expenses	10,757	22,694
<b>TOTAL</b>	<b>83,500</b>	<b>82,596</b>

### Taxes payable

Consolidated taxes payable at 31 December 2003 totalled CHF 18,431,000 compared with CHF 14,897,000 at 31 December 2002.

### Long-term financial debts

Long-term financial debts of CHF 1,730,000 at 31 December 2003 consisted of JPY 150.0 million owed by Meitan Tradition Co. Ltd (JPY 150.0 million or CHF 1,753,000 at 31 December 2002) repayable in November 2010.



## Notes to the consolidated financial statements

### III.6 Contingency and loss provisions

Contingency and loss provisions were as follows:

<i>in thousands of Swiss francs</i>	Provisions for pension benefits	Provisions for litigation	Negative value of interests accounted for by the equity method	Negative goodwill	Other provisions	TOTAL
<b>Amount as at 1 January 2002</b>	<b>3,988</b>	-	<b>4,841</b>	<b>4,612</b>	<b>948</b>	<b>14,389</b>
Reclassifications	-	-	-	-3,066	3,066	-
Increase	1,609	-	-	-	1,050	<b>2,659</b>
Amount used	-	-	-	-618	-948	<b>-1,566</b>
Unused amount reversed	-69	-	-4,841	-	-	<b>-4,910</b>
Translation adjustments	-290	-	-	-	-	<b>-290</b>
<b>Amount as at 31 December 2002</b>	<b>5,238</b>	-	-	<b>928</b>	<b>4,116</b>	<b>10,282</b>
Change in the basis of consolidation	16	-	-	-	-	<b>16</b>
Reclassifications	-582	3,532	-	-	-	<b>2,950</b>
Increase	2,339	2,615	-	-	-	<b>4,954</b>
Amount used	-432	-235	-	-618	-4,116	<b>-5,401</b>
Unused amount reversed	-	-170	-	-	-	<b>-170</b>
Translation adjustments	152	-163	-	-	-	<b>-11</b>
<b>Amount as at 31 December 2003</b>	<b>6,731</b>	<b>5,579</b>	-	<b>310</b>	-	<b>12,620</b>

Negative goodwill was recognised at the time of purchasing interests in Finacor Belgique S.A. and Monecor (London) Ltd in June 2001, in the amount of CHF 1,855,000 and CHF 3,066,000 respectively. Negative goodwill on Finacor Belgique S.A. is being amortised over three years, i.e. an income of CHF 618,000 in 2003 recognised under "Goodwill amortisation".

Monecor's appeal against Maxcor Financial Group Inc. was dismissed by the London Court of Appeal, and it had to sell its 50.00% holding in Eurobrokers Finacor Ltd (EBFL) on 19 February 2003 for GBP 1,625,000 (CHF 3,628,000). This price was calculated on the basis of 70.0% of EBFL's equity at 26 December 2000. Accordingly, EBFL was excluded from the consolidated accounts at 31 December 2002. A contingency provision of CHF 4,116,000 was booked at 31 December 2002. This provision was used in 2003 at the same time as a loss was recognised on the disposal of the interest in EBFL. Use of the provision and the corresponding loss are carried under "Exceptional items".

A number of Compagnie Financière Tradition subsidiaries recognised liabilities relating to litigation, mainly to do with salaries. These provisions totalled CHF 5,579,000 at 31 December 2003, and are carried under "Provisions for litigation", compared with CHF 3,532,000 at 31 December 2002, carried under "Other miscellaneous accrued expenses" at that date.

### III.7 Account holder activities

Tradition Securities And Futures S.A. exercises an account holder activity, meaning it receives deposits from its clients. These deposits are then placed with clearing institutions to ensure a satisfactory conclusion to the clients' operations. Its subsidiary MIA mainly specialises in matched principal operations, resulting in it having to show on its balance sheet, in the short-term, securities purchased in the market on behalf of its clients.

FXDirectDealer LLC and Monecor (London) Ltd, as part of their online brokerage activities in spot foreign exchange, receive deposits from their clients, which in turn they deposit with their clearing banks.

# Notes to the consolidated financial statements

Assets and liabilities associated with this activity, booked in the balance sheet under "Receivables linked to account holder activities" and "Debts linked to account holder activities" were as follows at 31 December 2003 and 2002:

<i>in thousands of Swiss francs</i>	2003	2002
<b>Receivables linked to account holder activities</b>		
Deposits paid	39	1,162
Current accounts with clearing institutions	10,841	10,420
Dealing accounts	42,950	43,414
<b>TOTAL</b>	<b>53,830</b>	<b>54,996</b>
<b>Debts linked to account holder activities</b>		
Deposits received	-3,068	-961
Current accounts with clearing institutions	-9,689	-10,338
Dealing accounts	-47,089	-42,578
<b>TOTAL</b>	<b>-59,846</b>	<b>-53,877</b>
<b>NET TOTAL</b>	<b>-6,016</b>	<b>1,119</b>

The net balance of this activity represents the difference between the amounts received from clients and the amounts paid to clearing institutions. This balance is held in bank deposits or borrowed short.

## III.8 Receivables from and debts to shareholder and associated companies

The items "Receivables from shareholder and associated companies" and "Debts to shareholder and associated companies" include all receivables and debts owed by Compagnie Financière Tradition Group to its ultimate majority shareholder, VIEL et Compagnie Finance, Paris, and its subsidiaries.

Compagnie Financière Tradition's total outstanding consolidated net debt to shareholder and associated companies at 31 December 2003 stood at CHF 1,873,000 (net debt of CHF 12,990,000 at 31 December 2002).

## III.9 Share capital

### Composition of share capital

Capital at 31 December 2002 consisted of 5,304,700 bearer shares with a nominal value of CHF 2.50, for a total capital of CHF 13,261,750.

In November 2003, Compagnie Financière Tradition issued 96,669 new shares at a price of CHF 118.00, increasing the Company's capital by CHF 241,000, with a share premium of CHF 11,167,000.

At 31 December 2003, share capital consisted of 5,401,369 bearer shares with a nominal value of CHF 2.50, for a total share capital of CHF 13,503,422.

### Major shareholders

At 31 December 2003, the only shareholder holding over 5.00% of equity voting rights in Compagnie Financière Tradition was VIEL et Compagnie Finance, Paris, with 75.41%, compared to 72.40% the previous year.

The 75.41% equity voting rights held by VIEL et Compagnie Finance, Paris, are exercised indirectly through Financière Vermeer BV, Amsterdam, 100.00% owned by VIEL & Cie, Paris, which itself was 55.17% held by VIEL et Compagnie Finance at 31 December 2003.

### Increase in share capital

Share capital may be increased by up to CHF 5,758,327 through the issue of up to 2,303,331 new bearer shares of CHF 2.50. The issue price of such new shares and the date from which they are to pay dividends shall be determined by the Board of Directors. This authorisation is valid until 19 May 2005.

The Board of Directors is empowered to cancel or limit existing shareholders' preferential subscription rights to allow acquisitions or equity interest acquisitions to take place. Share subscription rights for which a preferential subscription right is granted but not exercised are available to the Board of Directors for use in the Company's interests.

## Notes to the consolidated financial statements

### Conditional capital

Share capital may be increased by up to CHF 1,325,000 through the issue of up to 530,000 bearer shares of CHF 2.50. Such an increase is effected through the exercise of preferential subscription rights by Company employees. The preferential subscription rights of existing shareholders are cancelled. Conditions for employee participation are to be determined by the Board of Directors.

Share capital may also be increased by up to CHF 5,000,000 through the issue of up to 2,000,000 bearer shares of CHF 2.50. Such an increase is effected through the exercise of a conversion feature attached to the Company's issue of bonds or similar convertible notes on national and international markets. The preferential subscription rights of existing shareholders are cancelled. Conditions for employee participation are to be determined by the Board of Directors, with a conversion right based on an issue price of no less than

the average quoted price of the last twenty sessions prior to the issue date. The preferential rights of shareholders to subscribe to such notes are cancelled. The conversion rights may be exercised for a period not exceeding five years from the date of issue, after which time such rights will automatically expire.

### III.10 General reserve

The general reserve is not available for distribution.

### III.11 Consolidated reserves

This item includes cumulative consolidated currency translation adjustments, which decreased by CHF 5,358,000 in 2003 (decrease of CHF 14,319,000 in 2002).

## IV. NOTES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

### IV.1 Net turnover

Consolidated turnover fell 0.7%, from CHF 791.5 million in 2002 to CHF 786.1 million in 2003. Turnover would have been up 7.1% in constant terms, without the effects of exchange rates.

This turnover results from commissions on brokerage operations conducted by Compagnie Financière Tradition's affiliates for a broad clientele of banks, financial institutions and large corporations.

A segmental and geographical analysis of turnover is as follows:

<i>in thousands of Swiss francs</i>	Currencies and interest rates		Securities and security derivatives		Commodities and other activities		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002
Europe	191,107	175,494	173,154	161,603	28,642	33,902	392,903	370,999
United States	88,653	80,557	127,688	160,892	28,725	47,190	245,066	288,639
Asia-Pacific	123,270	111,379	4,321	7,204	20,572	13,284	148,163	131,867
<b>TOTAL</b>	<b>403,030</b>	<b>367,430</b>	<b>305,163</b>	<b>329,699</b>	<b>77,939</b>	<b>94,376</b>	<b>786,132</b>	<b>791,505</b>

# Notes to the consolidated financial statements

## IV.2 Other net operating income

This item may be summarised as follows:

<i>in thousands of Swiss francs</i>	2003	2002
Net income on real estate assets	242	310
Net income from the TFS-ICAP joint venture	-695	118
Insurance payments received in relation to 11 September 2001	-	5,747
Compensation payments received from New York City	480	233
<b>TOTAL</b>	<b>27</b>	<b>6,408</b>

## IV.3 Net financial income

This item may be summarised as follows:

<i>in thousands of Swiss francs</i>	2003	2002
Income from investments	-	266
Net capital gains on investments and marketable securities	1,646	25,861
Net profit/loss on sale of treasury shares	5,829	-970
Interest and exchange gains and losses	2,122	-680
Provisions on investments	33	-1,200
<b>TOTAL</b>	<b>9,630</b>	<b>23,277</b>

Net financial income of CHF 9,630,000 in 2003 (CHF 23,277,000 in 2002) consisted of interest from the reinvestment of short-term cash, interest paid on the short-term consolidated debt, and exchange gains and losses.

This item also includes income of CHF 266,000 in 2002 (nil income in 2003) from non-consolidated investments, and net gains of CHF 1,646,000 (CHF 25,861,000 in 2002) on the sale of investments and marketable securities.

A net gain of CHF 5,829,000 was recognised on treasury shares (cf. Note III.3). A gain of CHF 1,615,000 was recognised when the 2002 dividend was paid in June 2003, representing the difference between the selling price of the 103,958 shares allotted to shareholders and the reference value of the shares on the dividend payment date, i.e. CHF 73.00 per share. A further gain of CHF 1,625,000 was recognised at the time of paying the extra dividend for 2002, in September 2003, and represented the difference between the selling price of the 103,972 shares allotted to shareholders and the reference value of the shares on the dividend payment date, i.e. CHF 90.00 per share. A gain of CHF 2,589,000 arising on the disposal of 96,270 treasury shares was also recognised; most of these shares were acquired during the 2003 financial year. Compagnie Financière Tradition held 63,748 treasury shares at 31 December 2003, for a cost price of CHF 7,367,000. Based on the market price of CHF 117.50 at 31 December 2003, this portfolio represented an unrealised gain of CHF 123,000 at that date.

## IV.4 Exceptional items

<i>in thousands of Swiss francs</i>	2003	2002
<b>Exceptional income</b>		
Partial use of the contingency provision	4,116	948
Cancellation of debts	-	54
	<b>4,116</b>	<b>1,002</b>
<b>Exceptional expenses</b>		
Other exceptional items	-4,116	-2,454
	<b>-4,116</b>	<b>-2,454</b>
<b>EXCEPTIONAL ITEMS</b>	<b>-</b>	<b>-1,452</b>

A contingency provision of CHF 9,865,000 was set aside in 1996 and 1997 to cover risks involving Compagnie Financière Tradition and its affiliates. This provision was gradually written back in 1998, 1999 and 2001, with the balance recovered in 2002. At the same time an exceptional charge was recognised for costs and penalties sustained in those years, amounting to CHF 5,647,000 in 1998, CHF 842,000 in 1999, CHF 2,428,000 in 2001 and CHF 933,000 in 2002 respectively.

An exceptional contingency provision of CHF 1,050,000 was recognised in 2002, in connection with litigation against Maxcor Financial Group Inc., as well as CHF 471,000 for associated legal costs. This provision had been completed by the reclassification, under contingency and loss provisions, of the negative goodwill of CHF 3,066,000, recognised on the acquisition of Monecor (London) Ltd, making a total provision of CHF 4,116,000 at 31 December 2002. This was used in 2003, at the same time as recognising a loss on the disposal of Monecor's interest in Eurobrokers Finacor Ltd for an equivalent amount. These two items were carried under "Exceptional items".

## Notes to the consolidated financial statements

### IV.5 Tax expense

Compagnie Financière Tradition took a consolidated income tax charge of CHF 26,107,000 in 2003, or 36.9% of the consolidated profit before tax against 41.2% in 2002. The Group is present in sixteen countries through its network of subsidiaries, making it liable for income tax in several tax jurisdictions.

The average standard consolidated tax rate, calculated as the weighted average of all tax rates in effect in the various tax jurisdictions in which the Group has subsidiaries, was 31.6% for fiscal 2003 against 35.4% in the previous year.

An analysis of the difference between the effective tax rate and the standard tax rate is as follows:

	2003		2002	
	Effect on tax rate	Effect on tax charge	Effect on tax rate	Effect on tax charge
	%	in thousands of Swiss francs	%	in thousands of Swiss francs
<b>Standard tax rate</b>	<b>31.6</b>	<b>22,348</b>	35.4	27,477
<b>Tax effect of the following elements:</b>				
Unadjusted tax loss carry forwards	-3.0	-2,106	-3.6	-2,810
Unadjusted tax loss for the period	6.0	4,142	5.2	4,081
Unadjusted tax loss from previous years	-2.6	-1,852	-	-
Tax expense for fully-consolidated fiscally transparent entities charged to minorities	-0.1	-52	-1.3	-999
Deferred tax income/expenses	-1.7	-1,201	0.1	73
Non-taxable income	-0.5	-351	-5.5	-4,285
Non-deductible expenses	9.9	7,005	9.3	7,206
Miscellaneous items	-2.7	-1,826	1.6	1,255
<b>Group's effective tax rate</b>	<b>36.9</b>	<b>26,107</b>	41.2	31,998

At 31 December 2003, deferred tax assets not reported on the consolidated balance sheet, in the interests of conservatism, represent an amount of CHF 14,502,000, which could be used to reduce Compagnie Financière Tradition's future consolidated income tax expense.

# Notes to the consolidated financial statements

## V. ADDITIONAL INFORMATION

### V.1 Commitments and contingent liabilities

#### Guarantees and commitments given

<i>in thousands of Swiss francs</i>	2003	2002
Guarantees and commitments to third parties	16	22

#### Guarantees and commitments received

When VIEL et Compagnie Finance purchased the shares of Compagnie Financière Tradition held by Banque Pallas Stern, it undertook to pay Compagnie Financière Tradition and its subsidiaries the difference between aggregate receivables from Comipar and Banque Pallas Stern and the liquidation dividends to be received by Compagnie Financière Tradition and its subsidiaries in respect of such receivables.

This undertaking relates to receivables of €16,444,000 declared by Compagnie Financière Tradition and its subsidiaries at the time Comipar and Banque Pallas Stern went into receivership. VIEL et Compagnie Finance will honour this undertaking when these two entities pay the final liquidation dividend in connection with these receivables.

In 1999, 2000, 2001 and 2003, Compagnie Financière Tradition and its affiliates received repayments from Banque Pallas Stern and Comipar, equivalent to 50.8%, 7.2%, 4.0% and 4.0% of their receivables, bringing total unsecured dividends received since the liquidation of Banque Pallas Stern and Comipar to 66.0% of declared receivables. Residual receivables stood at CHF 8,199,000 at 31 December 2003 (CHF 9,135,000 at 31 December 2002).

### V.2 Off-balance sheet operations

<i>in thousands of Swiss francs</i>	2003	2002
Future commitments to deliver securities	98,592	52,289
Future commitments to purchase securities	86,702	33,833

Securities for delivery and to be purchased reflect purchase and sale transactions initiated prior to 31 December 2003 and liquidated after that date, in connection with matched principal activities realised by Tradition London Clearing Ltd, Tradition (Global Clearing) Inc. and Finacor Rabe AG.

Compagnie Financière Tradition and its subsidiaries were not engaged in any operations involving off-balance sheet financial instruments at 31 December 2003 and 2002.

### V.3 Assets pledged or given as guarantees

<i>in thousands of Swiss francs</i>	2003	2002
Cash and security deposits frozen as a guarantee for brokerage activity	14,975	11,635

Apart from these cash deposits frozen in clearing institutions such as Euroclear or GSCC (Government Securities Clearing Corporation) - included in the consolidated balance sheet under "Short-term deposits" or "Marketable securities" -, a number of Compagnie Financière Tradition's affiliates are subject to minimum equity restrictions imposed by the regulatory authorities, which limit the availability or free circulation of their liquid assets within the Group.

Compagnie Financière Tradition pledged a mortgage note of CHF 12,000,000 encumbering its two buildings in Lausanne, whose net book value was CHF 7,516,000 at 31 December 2003.

### V.4 Other information

#### Dividends

Dividends paid by Compagnie Financière Tradition are subject to withholding tax of 35.0% in Switzerland. Shareholders resident in Switzerland may claim back the full tax. Foreign residents may obtain a tax credit under any applicable double taxation treaties in force between Switzerland and their country of tax residence.

#### Earnings per share

Consolidated earnings per ordinary share of CHF 2.50 stood at CHF 7.10 in 2003 and CHF 6.00 in 2002, based on the weighted average number of shares outstanding in each of these two years.

# Company financial statements

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# Report of the statutory auditors

## to the General Meeting of Compagnie Financière Tradition, Lausanne

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, profit and loss and notes) of Compagnie Financière Tradition for the year ended 31 December 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to issue a report on these consolidated financial statements based on our review. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our review was conducted in accordance with standards promulgated by the Swiss profession, which require that a review be planned and performed to obtain moderate assurance about whether the financial statements are free from material misstatement. A review provides less assurance than an audit. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data on which the financial statements are based. We have not performed an audit, and, accordingly, we do not express an audit opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with SWISS GAAP FER. Furthermore, the accounting records and financial statements and the proposed approbation of available earnings comply with the Swiss law and the Company's articles of incorporation.

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

Lausanne, 12 March 2004

**Ernst & Young Ltd**

**Hans Isler**

Swiss certified accountant  
(in charge of the audit)

**Stéphane Muller**

Swiss certified accountant



# Profit and loss account 2003

<i>in thousands of Swiss francs</i>	Notes	2003	2002
Dividends received	III.1	10,505	5,538
Other operating income	III.1	6,880	5,788
Net financial results	III.1	6,709	-524
<b>Operating income</b>		<b>24,094</b>	10,802
Employee compensation and benefits		-1,631	-1,447
Other operating expenses		-3,184	-3,223
Depreciation and amortisation		-139	-49
<b>Operating expenses</b>		<b>-4,954</b>	-4,719
<b>OPERATING PROFIT</b>		<b>19,140</b>	6,083
Exceptional income	III.2	-	5,583
Exceptional expenses	III.2	-254	-
Tax		-1,179	-174
<b>NET PROFIT</b>		<b>17,707</b>	11,492

## Changes in retained earnings

<i>in thousands of Swiss francs</i>	2003	2002
<b>RETAINED EARNINGS</b>		
Retained earnings brought forward	41,145	66,823
Movements on reserve for treasury shares	-7,028	598
Net profit for the year	17,707	11,492
<b>RETAINED EARNINGS AT 31 DECEMBER</b>	<b>51,824</b>	78,913
<b>CHANGES IN RETAINED EARNINGS</b>		
Retained earnings	51,824	78,913
Dividend	-27,007	-38,512
Dividend on treasury shares	-	744
<b>RETAINED EARNINGS CARRIED FORWARD</b>	<b>24,817</b>	41,145

A dividend of CHF 4.00 per CHF 2.50 share was paid for the 2002 financial year. Added to this was the distribution of one free share for every 25 shares held, for a total distribution of CHF 38,512,000 for the 2002 financial year.

The Board will be recommending to the Annual General Meeting a dividend of CHF 5.00.

# Balance sheet at 31 December 2003

## ASSETS

<i>in thousands of Swiss francs</i>	Notes	2003	2002
<b>CURRENT ASSETS</b>			
Cash and call deposits		9,183	6,232
Short-term deposits		-	14,000
Short-term receivables from affiliated companies	II.3	11,144	5,499
Other short-term receivables	II.3	3,232	10,295
Marketable securities		1,681	1,492
Prepaid expenses and accrued income		156	221
<b>TOTAL CURRENT ASSETS</b>		<b>25,396</b>	<b>37,739</b>
<b>FIXED ASSETS</b>			
Long-term receivables from affiliated companies	II.2	50,924	58,935
Receivables from direct and ultimate shareholders		3,370	-
Other long-term receivables	II.3	6,928	7,804
Investments	II.1	73,144	43,212
Treasury shares	II.7	7,367	339
Installations and equipment	II.4	388	316
Buildings	II.4	7,516	7,516
<b>TOTAL FIXED ASSETS</b>		<b>149,637</b>	<b>118,122</b>
<b>TOTAL ASSETS</b>		<b>175,033</b>	<b>155,861</b>

## LIABILITIES

<i>in thousands of Swiss francs</i>	Notes	2003	2002
<b>CREDITORS</b>			
Short-term bank borrowings		18,676	-
Short-term debts to affiliated companies		14,779	6,483
Short-term debts to shareholders		249	7,461
Other short-term debts	II.5	6,371	952
Tax payable		2,571	1,392
Accrued expenses and deferred income	II.5	2,306	824
Long-term debts to affiliated companies	II.5	8,924	8,938
<b>TOTAL CREDITORS</b>		<b>53,876</b>	<b>26,050</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	II.6	13,503	13,262
Share premium	II.6	19,879	8,713
General reserve	II.6	13,284	13,284
Reserve for treasury shares	II.6	7,367	339
Other reserves	II.6	15,300	15,300
Retained earnings	II.6	51,824	78,913
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>121,157</b>	<b>129,811</b>
<b>TOTAL LIABILITIES</b>		<b>175,033</b>	<b>155,861</b>

# Notes to the Company financial statements

## I. ACCOUNTING PRINCIPLES

The accounting principles applied by Compagnie Financière Tradition comply with the provisions of the Swiss Code of Obligations and SWISS GAAP FER, in accordance with the listing rules of the Swiss Stock Exchange, particularly the conservatism principle.

The basic principles applied in the evaluation and presentation of balance sheet items are as follows:

### Current assets and short-term debts

Current assets and short-term debts are stated in the balance sheet at face value, after deduction of economically required provisions. Assets and liabilities denominated in foreign currencies are translated into Swiss francs at the year-end exchange rate. Marketable securities are recognised on the balance sheet at their acquisition cost, after deduction of economically necessary provisions, and are valued on the basis of their stock market price, for listed securities, or their estimated realisable value, for unlisted securities.

### Fixed assets

#### Long-term receivables

Long-term receivables are stated in the balance sheet at their face value at historical exchange rates, when their nature is that of quasi-equity capital. Otherwise, they are translated at the year-end exchange rates, after deduction of economically necessary provisions.

#### Investments

Holdings are stated at cost, translated at historical exchange rates. If the value of a company, based on net worth and anticipated results, appears to be less than the historical cost, a provision is made and carried in the section as a deduction.

These provisions are estimated individually for each company.

#### Tangible fixed assets

Buildings are valued at cost or net worth after deduction of economically necessary depreciation.

Other fixed assets are shown in the accounts at cost and depreciated over their estimated useful life as follows:

- Fixtures and installations: between 5 and 10 years,
- Computer and telecom. equipment: between 3 and 5 years,
- Other tangible fixed assets: between 3 and 5 years.

## II. NOTES TO THE BALANCE SHEET

### II.1 Investments

Compagnie Financière Tradition holds significant interests in the following companies:

	Share capital		Percentage shareholding		Acquisition cost	
	<i>in thousands of local currency</i>		<i>%</i>		<i>in thousands of Swiss francs</i>	
			2003	2002	2003	2002
Tradition Service Holding S.A., Lausanne	CHF	21,000	100.00	100.00	20,892	20,892
Holding Tradition Securities S.A., Lausanne	CHF	250	100.00	100.00	250	250
Holding Tradition Clearing, Lausanne	CHF	100	100.00	100.00	100	50
TFS, Lausanne	CHF	3,700	96.93	70.77	42,463	12,325
Tradcom Management, Lausanne	CHF	100	100.00	100.00	100	100
Tradificom International, Lausanne	CHF	100	100.00	100.00	100	100
Cofitra Investments Inc., British Virgin Islands	USD	5,000	100.00	100.00	8,880	8,880
StreamingEdge.com Inc., New Jersey	USD	1,000	60.00	60.00	1,698	1,698
Other investments					930	932
<b>GROSS TOTAL</b>					<b>75,413</b>	<b>45,227</b>
Provision for depreciation					-2,269	-2,015
<b>NET TOTAL</b>					<b>73,144</b>	<b>43,212</b>

Tradition Service Holding S.A., Holding Tradition Securities S.A., Holding Tradition Clearing and TFS are subholdings, which in turn hold significant interests in companies broking financial and non-financial products for a broad client base consisting mainly of financial institutions and major companies. Tradcom Management and Tradificom International provide the Group with information technology

and telecommunication services. Cofitra Investments Inc. is a financial company that has been inactive since 1988. StreamingEdge.com Inc. develops online transactional platforms.

The net asset value, on which economically necessary provisions were estimated, was determined on the basis of the

## Notes to the Company financial statements

company financial statements or, when required, the consolidated financial statements of these companies, translated at year-end exchange rates. These provisions stood at CHF 2,269,000 at 31 December 2003 compared with

CHF 2,015,000 at 31 December 2002, resulting in a provision expense of CHF 254,000 in 2003, recognised under "Exceptional expenses" (cf. Note III.2).

## II.2 Long-term receivables from affiliated companies

This item was composed of the following:

	Currency	Receivables <i>in thousands of local currency</i>		Receivables <i>in thousands of Swiss francs</i>	
		2003	2002	2003	2002
Tradition Service Holding S.A., Lausanne	CHF	30,273	39,851	30,273	39,851
Tradition Service Holding S.A., Lausanne	EUR	466	466	726	743
Holding Tradition Securities S.A., Lausanne	CHF	19,925	18,341	19,925	18,341
<b>GROSS TOTAL</b>				<b>50,924</b>	<b>58,935</b>
Provision for depreciation				-	-
<b>NET TOTAL</b>				<b>50,924</b>	<b>58,935</b>

Gross receivables from Holding Tradition Securities S.A. were subordinated to the extent of CHF 1,248,000 at 31 December 2002. This subordination was no longer required in 2003, since the company had a net worth of CHF 591,000 at 31 December 2003.

## II.3 Other receivables

### Short-term receivables from affiliated companies

These receivables stood at CHF 11,144,000 at 31 December 2003 (CHF 5,499,000 at 31 December 2002). They are payable in the short-term and result from day-to-day transactions between Compagnie Financière Tradition and affiliated companies.

### Other short-term receivables

Other short-term receivables amounting to CHF 10,295,000 at 31 December 2002 consisted of a receivable of CHF 3,633,000 from Edipresse S.A. representing the balance of the selling price of Compagnie Financière Tradition's interest in Infotec S.A., sold on 30 December 2002, as well as

an amount of CHF 4,387,000 outstanding from Infotec S.A., sold to Edipresse S.A. in January 2003. These two receivables were repaid in January and February 2003 respectively.

As a result, other short-term receivables at 31 December 2003, amounting to CHF 3,232,000, consisted mainly of receivables from the government, namely income tax instalments totalling CHF 2,558,000.

### Other long-term receivables

This item includes receivables held by Compagnie Financière Tradition on its former ultimate shareholders, Comipar, Paris, and Banque Pallas Stern, Paris. These receivables, totalling CHF 6,928,000 at 31 December 2003 (CHF 7,804,000 at 31 December 2002) are secured by a commitment from the ultimate majority shareholder, VIEL et Compagnie Finance, Paris (cf. Note IV.2). From 1999 to 2003, Compagnie Financière Tradition received liquidation dividends totalling CHF 3,314,000 equivalent to 66.0% of all stated receivables.

## II.4 Fixed assets

<i>in thousands of Swiss francs</i>	2003			2002		
	Gross	Amort.	Net	Gross	Amort.	Net
Land and buildings	7,516	-	7,516	7,516	-	7,516
Fixtures and installations	3,735	3,690	45	3,719	3,651	68
Computer and telecom. equipment	2,450	2,400	50	2,421	2,370	51
Other fixed assets	1,047	754	293	881	684	197
<b>TOTAL</b>	<b>14,748</b>	<b>6,844</b>	<b>7,904</b>	<b>14,537</b>	<b>6,705</b>	<b>7,832</b>

# Notes to the Company financial statements

Changes in tangible fixed assets during 2003 and 2002 were as follows:

<i>in thousands of Swiss francs</i>	<b>2003</b>	<b>2002</b>
<b>Gross value at 1 January</b>	<b>14,537</b>	16,336
Acquisitions during the year	211	234
Disposals and write-offs	-	-2,033
<b>Gross value at 31 December</b>	<b>14,748</b>	14,537
<b>Cumulative depreciation at 1 January</b>	<b>6,705</b>	8,418
Depreciation for the year	139	49
Disposals and write-offs	-	-1,762
<b>Cumulative depreciation at 31 December</b>	<b>6,844</b>	6,705
<b>Net value at 31 December</b>	<b>7,904</b>	7,832

At 31 December 2003, fire insurance values stood at CHF 7,382,000 for installations and equipment, and CHF 18,383,000 for buildings (CHF 12,728,000 and CHF 18,104,000 respectively at 31 December 2002).

## II.5 Accrued expenses and other debts

### Other short-term debts

This item was comprised as follows:

<i>in thousands of Swiss francs</i>	<b>2003</b>	<b>2002</b>
Employee current accounts	101	50
Public authorities	33	18
Other short-term debts	6,237	884
<b>TOTAL</b>	<b>6,371</b>	952

The heading "Other short-term debts" comprises a debt of CHF 5,159,000 to staff or former staff of the TFS Group, a subsidiary of Compagnie Financière Tradition. This debt arose in the fourth quarter of 2003 on the purchase of TFS shares held by these staff. The operation allowed Compagnie Financière Tradition to increase its interest in TFS from 70.77% at 31 December 2002 to 96.93% at 31 December 2003. The debt is repayable on 30 June 2004.

### Accrued expenses and deferred income

This item was comprised as follows:

<i>in thousands of Swiss francs</i>	<b>2003</b>	<b>2002</b>
Employee compensation and benefits	1,546	535
Other miscellaneous accrued expenses	760	289
<b>TOTAL</b>	<b>2,306</b>	824

### Long-term debts to affiliated companies

This item, which amounted to CHF 8,924,000 at 31 December 2003 (CHF 8,938,000 at 31 December 2002), consists of a debt to Cofitra Investment Inc., British Virgin Islands, a dormant company in which Compagnie Financière Tradition holds a 100.00% direct interest.

## II.6 Shareholders' equity

### Composition of share capital

Changes in share capital over the past three financial years were as follows:

At 1 January 2000, share capital stood at CHF 12,683,500, consisting of 1,268,350 shares with a nominal value of CHF 10.00. Capital was increased by CHF 291,500 in April 2000, following the exercise of share options, bringing the share capital to CHF 12,975,000 at 31 December 2000, consisting of 1,297,500 shares of CHF 10.00.

The Annual General Meeting of 11 May 2001 approved the halving of the nominal value of shares to CHF 5.00 per share, and in July 2001, share capital was increased by CHF 286,750 in consideration of Compagnie Financière Tradition's acquisition of four investments. These two operations brought the number of shares at 31 December 2001 to 2,652,350 and issued share capital to CHF 13,261,750.

Another two-for-one share split was approved by the Annual General Meeting of 17 May 2002 and was implemented on 4 July 2002. At 31 December 2002, capital consisted of 5,304,700 bearer shares with a nominal value of CHF 2.50, for a total capital of CHF 13,261,750.

In November 2003, Compagnie Financière Tradition issued 96,669 new shares at a price of CHF 118.00, increasing the Company's capital by CHF 241,000, with a share premium of CHF 11,166,000.

At 31 December 2003, share capital consisted of 5,401,369 bearer shares with a nominal value of CHF 2.50, for a total share capital of CHF 13,503,422.

## Notes to the Company financial statements

### Changes in shareholders' equity

Changes in share capital, share premium, various reserves and retained earnings of Compagnie Financière Tradition over the past three financial years were as follows:

<i>in thousands of Swiss francs</i>	Share capital	Share premium	General reserve	Reserve for treasury shares	Other reserves	Retained earnings	Shareholders' equity
<b>Balance at 1 January 2001</b>	<b>12,975</b>	<b>2,117</b>	<b>13,284</b>	<b>514</b>	<b>15,300</b>	<b>84,693</b>	<b>128,883</b>
Increase in capital	287	6,596	-	-	-	-	<b>6,883</b>
Movements on reserve for treasury shares	-	-	-	423	-	-423	-
Dividend	-	-	-	-	-	-7,785	<b>-7,785</b>
Dividend on treasury shares	-	-	-	-	-	51	<b>51</b>
Net profit	-	-	-	-	-	854	<b>854</b>
<b>Balance at 31 December 2001</b>	<b>13,262</b>	<b>8,713</b>	<b>13,284</b>	<b>937</b>	<b>15,300</b>	<b>77,390</b>	<b>128,886</b>
Movements on reserve for treasury shares	-	-	-	-598	-	598	-
Dividend	-	-	-	-	-	-10,609	<b>-10,609</b>
Dividend on treasury shares	-	-	-	-	-	42	<b>42</b>
Net profit	-	-	-	-	-	11,492	<b>11,492</b>
<b>Balance at 31 December 2002</b>	<b>13,262</b>	<b>8,713</b>	<b>13,284</b>	<b>339</b>	<b>15,300</b>	<b>78,913</b>	<b>129,811</b>
Increase in capital	241	11,166	-	-	-	-	<b>11,407</b>
Movements on reserve for treasury shares	-	-	-	7,028	-	-7,028	-
Dividend	-	-	-	-	-	-38,512	<b>-38,512</b>
Dividend on treasury shares	-	-	-	-	-	744	<b>744</b>
Net profit	-	-	-	-	-	17,707	<b>17,707</b>
<b>Balance at 31 December 2003</b>	<b>13,503</b>	<b>19,879</b>	<b>13,284</b>	<b>7,367</b>	<b>15,300</b>	<b>51,824</b>	<b>121,157</b>

### Major shareholders

At 31 December 2003, the only shareholder holding over 5.00% of equity voting rights in Compagnie Financière Tradition was VIEL et Compagnie Finance, Paris, with 75.41%, compared to 72.40% at 31 December 2002.

The 75.41% interest held by VIEL et Compagnie Finance, Paris, is exercised indirectly through Financière Vermeer BV, Amsterdam, wholly-owned by VIEL & Cie, Paris, which itself was 55.17% held by VIEL et Compagnie Finance at 31 December 2003.

### Increase in share capital

Share capital may be increased by up to CHF 5,578,327 through the issue of up to 2,303,331 new bearer shares with a nominal value of CHF 2.50. The issue price of such new shares and the date from which they are to pay dividends shall be determined by the Board of Directors.

The provision in Articles of Association concerning authorised share capital of CHF 5,713,250, which was not used prior to its expiry on 11 May 2003, was cancelled. The Annual General Meeting of 19 May 2003 approved the creation of a new authorised share capital of CHF 6,000,000. At its meeting on 24 November 2003, the Board of Directors approved and implemented an increase in share capital of CHF 241,672 using the authorised share capital.

The Board of Directors is empowered to cancel or limit existing shareholders' preferential subscription rights to allow acquisitions or equity interest acquisitions to take place. Share subscription rights for which a preferential subscription right is granted but not exercised are available to the Board for use in the Company's interests.

# Notes to the Company financial statements

## Conditional capital

Share capital may be increased by up to CHF 1,325,000, through the issue of up to 530,000 bearer shares of CHF 2.50. Such an increase is effected through the exercise of preferential subscription rights of existing shareholders are cancelled. Conditions for employee participation are to be determined by the Board of Directors.

There were 510,494 employee share options outstanding at 31 December 2003, representing a potential increase in capital of CHF 1,276,235. An analysis of these options, which each gives the right to subscribe to one CHF 2.50 share, is shown below:

	No. of shares of CHF 2.50 nominal value	Potential increase in capital in Swiss francs	Exercise date	Expiry date	Exercise price in Swiss francs
Plan of 29.09.97	48,400	121,000	16,000 shares on 29.09.99 16,000 shares on 29.09.00 16,400 shares on 29.09.01	28.09.04	9.00
Plan of 10.03.00	266,000	665,000	88,800 shares on 10.03.01 88,800 shares on 10.03.02 88,400 shares on 10.03.03	09.03.12	60.00
Plan of 17.05.02	40,000	100,000	40,000 shares on 17.05.04	16.05.16	97.50
Plan of 18.09.02	106,094	265,235	106,094 shares on 18.09.07	17.09.14	81.50
Plan of 08.09.03	50,000	125,000	50,000 shares on 08.09.05	07.09.13	92.25
<b>TOTAL</b>	<b>510,494</b>	<b>1,276,235</b>			

Share capital may also be increased by up to CHF 5,000,000 through the issue of up to 2,000,000 bearer shares with a nominal value of CHF 2.50. Such an increase is effected through the exercise of a conversion feature attached to the Company's issue of bonds or similar convertible notes on national and international markets. The preferential subscription rights of existing shareholders are cancelled. Conditions for employee participation are to be determined by the Board of Directors, with a conversion right based on an issue price of no less than the average quoted price of the last twenty sessions prior to the issue date. The preferential rights of shareholders to subscribe to such notes are cancelled. The conversion rights may be exercised for a period not exceeding five years from the date of issue, after which time such rights will automatically expire.

## II.7 Treasury shares

At 31 December 2003, the Company held 63,748 treasury shares with a nominal value of CHF 2.50, booked at an acquisition value of CHF 7,367,000. Movements in treasury shares during the period were as follows:

	Book value in thousands of Swiss francs	Acquisition cost or realisation price in thousands of Swiss francs	No. of shares of CHF 2.50 nominal value
<b>Situation at 1 January 2003</b>	<b>339</b>	<b>339</b>	<b>7,308</b>
Acquisitions	28,630	28,630	360,640
Shares paid out as dividends	-13,707	-16,947	-207,930
Sales	-7,895	-10,484	-96,270
Capital gains for the year	-	5,829	-
<b>Situation at 31 December 2003</b>	<b>7,367</b>	<b>7,367</b>	<b>63,748</b>



## Notes to the Company financial statements

### III. NOTES TO THE PROFIT AND LOSS ACCOUNT

#### III.1 Operating income

Dividends of CHF 10,505,000 were received from subsidiaries in 2003 (CHF 5,538,000 in 2002), CHF 9,996,000 of which were paid by Tradition Service Holding S.A., CHF 487,000 by TFS, and CHF 22,000 by Tradition Italia Sim S.p.A.

Since Compagnie Financière Tradition became a pure holding company on 1 July 1998, it did not exercise any operational activities. As a holding company, it received net rental income on its buildings of CHF 242,000 in 2003 (CHF 310,000 in 2002), as well as royalties paid by its subsidiaries totalling CHF 5,979,000 for the 2003 financial year (CHF 5,478,000 in 2002). The full amount of this income is reported under "Other operating income".

Net financial income of CHF 6,709,000 was recognised in 2003 (net financial expense of CHF 524,000 in 2002), comprising the following:

<i>in thousands of Swiss francs</i>	2003	2002
Interest expenses	-872	-286
Net exchange gains and losses	1,613	-1,359
Net capital gain / loss on disposal of treasury shares (cf. Note II.7)	5,829	-970
Profit on disposal of Infotec S.A.	-	2,085
Other profit on investments	139	6
<b>TOTAL</b>	<b>6,709</b>	<b>-524</b>

#### III.2 Exceptional income and expenses

This item was comprised as follows:

<i>in thousands of Swiss francs</i>	2003	2002
<b>Exceptional income</b>		
Liquidation of provisions on investments	-	65
Dissolution of depreciation allowances for long-term receivables from affiliated companies	-	4,570
Partial use of the contingency provision	-	948
<b>TOTAL</b>	<b>-</b>	<b>5,583</b>
<b>Exceptional expenses</b>		
Provision on investments	-254	-
<b>TOTAL</b>	<b>-254</b>	<b>-</b>

### IV. ADDITIONAL INFORMATION

#### IV.1 Commitments and contingent liabilities

<i>in thousands of Swiss francs</i>	2003	2002
Guarantees and commitments to third parties	16	22

The Company also issued comfort letters in favour of two of its indirectly held affiliates:

- Letter of 27 January 1988 to the Bank of England confirming a support commitment in favour of Tradition (U.K.) Ltd, London, with no stated limit,
- Letter of 8 February 1988 to the Bank of England confirming support commitment in favour of Tradition Financial Services Ltd, London, with no stated limit.

#### IV.2 Guarantees and commitments received

When VIEL et Compagnie Finance purchased the shares of Compagnie Financière Tradition held by Banque Pallas Stern, it undertook to pay Compagnie Financière Tradition the difference between aggregate receivables from Comipar and Banque Pallas Stern and the liquidation dividends to be received by Compagnie Financière Tradition in respect of such receivables.

This undertaking relates to receivables of €14,032,000 declared by Compagnie Financière Tradition when Comipar and Banque Pallas Stern went into receivership. VIEL et Compagnie Finance will honour this undertaking when these two entities pay the final liquidation dividend in respect of such receivables.

In 1999, 2000, 2001 and 2003, Compagnie Financière Tradition received payments from Banque Pallas Stern and Comipar, equivalent to 50.8%, 7.2%, 4.0% and 4.0% of its disclosed receivables, bringing total unsecured dividends received since the liquidation of Banque Pallas Stern and Comipar to 66.0% of disclosed receivables. Residual receivables stood at CHF 6,928,000 at 31 December 2003 (CHF 7,804,000 at 31 December 2002).

#### IV.3 Pledged assets

Compagnie Financière Tradition pledged a mortgage note of CHF 12,000,000 encumbering its two buildings in Lausanne, whose net book value was at CHF 7,516,000 at 31 December 2003.

#### IV.4 Operations on financial instruments

Compagnie Financière Tradition was not engaged in any operations involving off-balance sheet financial instruments at 31 December 2003 and 2002.



Compagnie Financière Tradition

11, rue Langallerie, CH 1003 Lausanne  
T.: +41 21 343 52 52 • F.: +41 21 343 55 00  
[www.traditiongroup.com](http://www.traditiongroup.com)