Siegfried

Financial Report

Annual report
2016

Key Figures

	2016	2015	Change CHF (LC)
Net sales (million CHF)	717.7	480.6	+49.3% (+47.3%)
Gross profit (million CHF)	109.2	90.7	20.5%
Gross profit margin (%)	15.2%	18.9%	
Results before special effects*			
EBITDA (million CHF)	104.2	80.1	30.1%
EBITDA margin (%)	14.5%	16.7%	
EBIT (operating result) (million CHF)	54.2	46.4	16.8%
EBIT margin (%)	7.6%	9.7%	
Net profit (million CHF)	33.4	34.1	–2.3%
Net profit-margin in percentage	4.6%	7.1%	
Non-diluted earnings per share (CHF)	8.59	8.63	–0.5%
Diluted earnings per share (CHF)	8.41	8.52	–1.2%
Results including special effects*			
EBITDA (million CHF)	96.7	77.1	25.5%
EBITDA margin (%)	13.5%	16.0%	
EBIT (operating result) (million CHF)	46.7	43.4	7.6%
EBIT margin (%)	6.5%	9.0%	
Net profit (million CHF)	27.9	39.1	–28.6%
Net profit-margin in percentage	3.9%	8.1%	
Non-diluted earnings per share (CHF)	7.18	9.89	–27.4%
Diluted earnings per share (CHF)	7.04	9.76	–27.9%
Cash flow from operating activities (million CHF)	57.1	23.1	147.5%
Investment in property, plant and equipment and intangible assets (million CHF)	68.4	95.0	–28.0%

	December 31, 2016	December 31, 2015	Change
Equity (million CHF)	660.7	492.7	34.1%
Total assets (million CHF)	1 021.4	1 003.9	1.7%
Equity as a percentage of total assets	64.7%	49.1%	
Employees (number of full time positions)	2 315	2 238	3.4%

* Integration costs in 2016 and 2015 incl. tax effect, positive effects on taxes in 2015.

Financial Report

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Financial Commentary 2016

Strong Sales Growth

In the financial year 2016 Siegfried generated sales of CHF 717.7 million, an increase of 49.3% in CHF or 47.3% in local currencies. Sales in Drug Substance increased by 67.5% (+65.4% in local currencies) to CHF 557.9 million. Drug Products recorded an increase of 8.4% (+6.3% in local currencies) to CHF 159.8 million. Divided over the first and second halves of the year, in the first half of the year sales of CHF 353.6 million were achieved and in the second half CHF 364.1 million. The pharmaceutical supply business of BASF taken over at the end of September 2015 is included in the figures for a whole year for the first time. Corrected for the acquisition effect, which relates entirely to Drug Substance, 2016 resulted in organic growth of 6.7%.

EBITDA before Integration Costs exceeds the CHF 100 Million Mark

In 2016 Siegfried earned an EBITDA before integration costs of CHF 104.2 million (prior year CHF 80.1 million) with an EBITDA margin of 14.5% (prior year 16.7%). This represents an improvement of 30.1%. Including integration costs the EBITDA is CHF 96.7 million with an EBITDA margin of 13.5%. Before integration costs the EBIT amounted to CHF 54.2 million (prior year CHF 46.4 million), a plus of 16.8%. Before integration costs the EBIT margin was 7.6% (prior year 9.7%) and including integration costs 6.5% (prior year 9.0%). The integration costs of CHF 7.5 million in 2016 (prior year CHF 3.0 million) relate to non-recurring integration costs incurred in the context of the takeover of BASF's pharmaceutical supply business.

The cost of goods sold rose to CHF 608.5 million. This resulted in a gross profit of CHF 109.2 million (prior year CHF 90.7 million) on a gross margin of 15.2% (prior year 18.9%). The marketing and sales costs amounted to CHF 16.0 million (prior year CHF 13.0 million), the research and development costs to CHF 21.2 million (prior year CHF 23.3 million) and the administration and general overhead costs to CHF 31.5 million (prior year CHF 23.3 million). The marketing and sales costs increased as a result of growth. In contrast the research and development costs fell slightly despite the strong growth in sales, this because of higher allocations to customer projects. Included in the administration costs, which increased considerably but still not proportionately to sales, is a significant part of the integration costs. Other operating income amounted to CHF 6.2 million (prior year CHF 12.4 million).

Decline in Net Profit as a Result of higher Financing Costs and the Absence of Positive Tax Effects

The Financial Result of CHF –12.0 million comprises financing costs of CHF 12.6 million and a foreign exchange gain of CHF 0.6 million. The financing costs include interest and bank charges in the amount of CHF 7.8 million and CHF 4.4 million interest expense on foreign pension liabilities. Compared with the prior year the financial expenditure has almost doubled. This is a consequence of debt, which has risen considerably because of acquisitions and therefore higher interest.

In 2016 there resulted tax expense of CHF 6.8 million, equivalent to a tax rate of 19.7%. In the prior year, thanks to the capitalization of tax loss carry forwards, a positive tax result of CHF 2.0 million resulted. Therefore, compared with 2015 the combination of the financial and tax result gives a charge against profits, which is higher by CHF 14.5 million. This leads to a reduction of the net profit to CHF 27.9 million with a net profit margin of 3.9% (prior year 8.1%). Before special effects the net profit 2016 is CHF 33.4 million with a margin of 4.6% (prior year CHF 34.1 million with a margin of 7.1%).

The undiluted earnings per share (EPS) is CHF 7.18, the diluted earnings per share CHF 7.04 (prior year EPS CHF 9.89, diluted EPS CHF 9.76). The undiluted earnings per share before special effects remained nearly unchanged compared to the previous year at CHF 8.59 (previous year: CHF 8.63), as were the diluted earnings per share before special effects at CHF 8.41 (previous year: CHF 8.52).

Significant Increase in the Operating Cash Flow

In 2016 Siegfried generated an operating cash flow before changes in net current assets of CHF 95.9 million (prior year CHF 65.0 million). This represents a significant increase of 47.5%. In the course of the year the inventory was reduced by CHF 13.9 million. But in the fourth quarter high sales were realized, so that at the year-end above average trade receivables were carried in the books. In aggregate the result was an increase in net current assets by CHF 38.8 million. The operating cash flow including the change in net current assets amounted to CHF 57.1 million and was thus more than doubled (prior year CHF 23.1 million).

In the past years in realizing the strategy “Transform” heavy investments have been made in fixed assets. In addition in 2016 the investments in the sites recently taken over from BASF were reflected in the books for a whole year for the first time. Despite this, the investments in fixed assets and intangible assets were lower than in the prior year and amounted to CHF 68.4 million (prior year CHF 95.0 million). About half of the investments in fixed assets in 2016 related to Nantong, the new multi-purpose plant in Zofingen and the IT integration of the three former BASF sites. In 2017 investments in fixed assets will fall further to a normal level.

Given the favorable interest environment with historically low interest rates Siegfried decided in 2016 to issue a second public hybrid bond. The issue of CHF 160 million at the lowest rate issued in the Swiss hybrid market of 2.125% was made in October 2016 and used to repay bank loans. Credit lines of CHF 200 million with an accordion option of additionally up to CHF 100 million remain available. In 2016 CHF 13.2 million net was used to purchase treasury shares. At the end of 2016 Siegfried therefore holds sufficient treasury shares to cover the conversion of the private hybrid convertible loan with the RAG investment company. Interest paid and bank charges amounted in 2016 to CHF 12.8 million. The distribution to the shareholders out of the capital contribution reserve made in April 2016 amounted to CHF 7.0 million.

At the end of the year CHF 31.6 million was held in cash. The outstanding loans amounted to CHF 91.1 million gross. Therefore the net debt at the end of 2016 was CHF 59.5 million. At the year-end the net debt in relation to EBITDA was 0.6, the equity ratio 64.7%. The financial covenants under the credit facility agreement with the syndicated banks are therefore comfortably met. Both based on the financial covenants and on the credit lines still available Siegfried disposes over the necessary debt capacity to finance further growth.

The Board of Directors proposes to the General Meeting to be held on April 20, 2017, a distribution out of the capital contribution reserve of CHF 2.00 per share, which based on the number of shares entitled to a dividend will result in a distribution of approx. CHF 7.8 million.

M. Hü

Michael Hüsler
CFO

Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	2	488 234	469 959
Intangible assets	3	9 048	10 139
Investments in associated companies and joint ventures	4	473	527
Financial and other non-current assets	5	3 524	3 424
Employer contribution reserves	17	9 151	8 763
Deferred tax assets	6	42 803	48 868
Total non-current assets		**553 233**	**541 680**
Current assets			
Inventories	7	243 669	256 923
Trade receivables	8	155 771	123 979
Other current assets		29 029	27 839
Accrued income and prepaid expenses		7 115	5 880
Current income taxes		433	249
Derivative financial instruments	9	471	–
Cash		31 636	47 386
Total current assets		**468 124**	**462 256**
Total assets		**1 021 357**	**1 003 936**
Liabilities and equity			
Equity			
Share capital		8 333	8 300
Treasury shares		–51 787	–37 197
Capital reserves		75 699	79 753
Hybrid capital		315 985	157 495
Retained earnings		312 506	284 303
Total equity		**660 736**	**492 654**
Non-current liabilities			
Non-current financial liabilities	12	91 107	214 667
Non-current provisions	13	25 105	27 118
Deferred tax liabilities	6	4 638	5 740
Other non-current liabilities	14	1 869	2 006
Non-current pension liabilities	17	114 268	114 025
Total non-current liabilities		**236 987**	**363 556**
Current liabilities			
Trade payables		55 336	64 703
Other current liabilities	16	18 017	12 505
Accrued expenses and deferred income	15	37 638	46 043
Other current financial liabilities	12	–	10 000
Derivative financial instruments	9	385	429
Current pension liabilities	17	136	619
Current provisions	13	9 669	10 688
Current income tax liabilities		2 453	2 739
Total current liabilities		**123 634**	**147 726**
Total liabilities		**360 621**	**511 282**
Total liabilities and equity		**1 021 357**	**1 003 936**

* The Notes on pages 107–134 are an integral part of the Group Financial Statements.

Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2016	2015
Net sales	26	717 729	480 571
Cost of goods sold		–608 509	–389 919
Gross profit		**109 220**	**90 652**
Marketing and sales costs		–16 028	–13 041
Research and development costs		–21 193	–23 289
Administration and general overhead costs		–31 488	–23 311
Other operating income	19	6 239	12 423
Share of results of associated companies		–36	–33
Operating result		**46 714**	**43 401**
Financial income	20	25	236
Financial expenses	20	–12 593	–5 694
Exchange rate differences	20	587	–892
Profit before income taxes		**34 733**	**37 051**
Income taxes	6	–6 827	2 049
Net profit		**27 906**	**39 100**
Non-diluted earnings per share (CHF)	21	7.18	9.89
Diluted earnings per share (CHF)	21	7.04	9.76

* The Notes on pages 107–134 are an integral part of the Group Financial Statements.

Consolidated Statement of Cash Flows

In 1000 CHF (for the years ended December 31)	Notes*	2016	2015
Net profit		**27 906**	**39 100**
Depreciation and impairment of PP&E and intangible assets	2,3	50 000	33 681
Change in provisions	13	–1 940	41
Other non-cash items		–2 734	–12 293
Share-based payments	18	3 830	2 073
Exchange rate differences	20	–586	892
Financial income	20	–25	–236
Financial expenses	20	12 593	5 694
Income taxes	6	6 827	–2 049
Share of results of associated companies	4	36	33
Net result on disposal of property, plant and equipment		–	–1 911
Cash flow from operating activities before change in net current assets		**95 907**	**65 025**
Change in trade receivables		–30 210	–24 773
Change in other current assets		–4 274	1 775
Change in inventories		13 881	–14 681
Change in trade payables		–7 791	–3 508
Change in other current liabilities		–1 165	1 261
Payments out of provisions and pension liabilities		–5 042	–1 370
Income taxes paid		–4 193	–654
Cash flow from operating activities		**57 113**	**23 075**
Purchase of property, plant and equipment	2	–64 909	–94 703
Proceeds from disposal of property, plant and equipment		138	5 629
Purchase of intangible and other assets	3	–3 516	–296
Proceeds from disposal of intangible assets		97	–
Acquisition of Group companies	3	2 157	–160 361
Investments in financial fixed assets		249	–3 233
Interest received		11	101
Dividend received		11	27
Cash flow from investing activities		**–65 762**	**–252 836**
Capital increase		1 557	–
Issuance of hybrid capital	11	158 490	157 495
Change in financial liabilities	12	–132 856	106 686
Repayment of current financial liabilities		–	–11 864
Change in other non-current liabilities		456	198
Purchase/disposal of treasury shares, net		–13 242	–14 195
Interest paid and bank charges		–12 754	–8 356
Dividend to the shareholders of Siegfried Holding AG		–6 998	–5 986
Cash flow from financing activities		**–5 347**	**223 978**
Net change in cash		**–13 996**	**–5 783**
Cash at the beginning of the year		47 386	50 224
Net effect of exchange rate changes on cash		–1 754	2 945
Cash at the end of the year		31 636	47 386

* The Notes on pages 107–134 are an integral part of the Group Financial Statements.

Consolidated Statement of Changes in Equity

In 1000 CHF	Share capital	Treasury shares	Capital reserves	Hybrid capital	Value fluctuations of financial instruments*	Accumulated profits*	Cumulative translation adjustments*	Total equity
As of January 1, 2015	**8 300**	**–19 236**	**85 739**	**–**	**–759**	**368 595**	**–59 870**	**382 768**
Net profit	–	–	–	–	–	39 100	–	39 100
Dividends	–	–	–5 986	–	–	–	–	–5 986
Change in hybrid capital	–	–	–	157 495	–	–1 030	–	156 465
Changes in financial instruments	–	–	–	–	–139	–	–	–139
Employee share plan	–	–	–	–	–	2 073	–	2 073
Change in treasury shares	–	–17 961	–	–	–	3 766	–	–14 195
Goodwill allocation	–	–	–	–	–	–61 685	–	–61 685
Currency translation differences	–	–	–	–	–	–	–5 748	–5 748
As of December 31, 2015	**8 300**	**–37 197**	**79 753**	**157 495**	**–898**	**350 819**	**–65 618**	**492 654**
Net profit	–	–	–	–	–	27 906	–	27 906
Dividends	–	–	–6 998	–	–	–	–	–6 998
Change in hybrid capital	–	–	–	158 490	–	–5 577	–	152 913
Changes in financial instruments	–	–	–	–	1 059	–	–	1 059
Employee share plan	–	–	–	–	–	2 410	–	2 410
Change in treasury shares	–	–14 590	–	–	–	2 330	–	–12 261
Capital increase	33	–	2 944	–	–	–	–	2 977
Goodwill allocation	–	–	–	–	–	810	–	810
Currency translation differences	–	–	–	–	–	–	–735	–735
As of December 31, 2016	**8 333**	**–51 787**	**75 699**	**315 985**	**161**	**378 698**	**–66 353**	**660 736**

* In the Consolidated Balance Sheet these items are disclosed as retained earnings.

The share capital of Siegfried Holding AG increased from CHF 8.30 million to CHF 8.33 million as a result of the issue of shares under employee benefit programmes. It is divided into 4 166 591 registered shares each with a nominal value of CHF 2 (2015: 4 150 000 registered shares), see Note 11.

The equity of Siegfried Holding AG increased by net CHF 158.5 million as a result of the issue of a public hybrid bond in the amount of CHF 160 million, see Note 11. The transaction costs of CHF 1.5 million incurred in connection with the hybrid bond has been deducted from the hybrid capital.

All fully consolidated investments are held to 100% by the Group. Therefore, at year end, as in the previous year the Group had no minorities of third parties.

Notes to the Consolidated Financial Statements

General Information

Financial Statements

The financial reporting of the Siegfried Group complies with Swiss GAAP FER and the provisions of Swiss law. The Consolidated Financial Statements are based on historical costs, except for the revaluation of specific financial assets and liabilities, such as derivative financial instruments, and acquisitions. As described in the following policies, they are valued at fair value. The Consolidated Financial Statements are prepared on a going concern basis. The Consolidated Financial Statements of the Siegfried Group are presented in Swiss francs and were approved by the Board of Directors on March 10, 2017, for presentation to the General Meeting held on April 20, 2017.

Information about the Group

The Siegfried Group is a worldwide pharmaceutical supplier with production sites in Switzerland, the USA, Malta, China, Germany and France. Under contract to the pharmaceutical industry Siegfried develops manufacturing processes for active pharmaceutical ingredients and their intermediates and produces them (Drug Substances). The Siegfried Group also produces finished pharmaceutical products (Drug Products). Siegfried Holding AG (head office in Zofingen, AG) is listed on the SIX Swiss Exchange.

Method and Scope of Consolidation

The Consolidated Financial Statements include the financial statements of all Swiss and foreign companies, in which Siegfried Holding AG controls (generally over 50% of the voting interest) directly or indirectly the financial and operating policy. Assets and liabilities, income and expenses are included according to the full consolidation method. Minority interests in the net assets and income of consolidated companies are recorded separately both in the Consolidated Balance Sheet and the Consolidated Income Statement. At year end there are no minority interests in the Group.

Investments in associated companies are accounted for using the equity method. These are companies, over which the Group exercises significant interest, but not control. This is generally the case with a voting rights share of 20% to 50%. Investments in joint ventures are also accounted for using the equity method.

Group companies acquired or disposed of during the reporting period are included in or excluded from the Consolidated Financial Statements from the date of acquisition or disposal. The individual financial statements, on which the Consolidated Financial Statements are based, are drawn up in accordance with accounting principles applied consistently throughout the Group. All intercompany transactions, including receivables and payables, income and expenses, unrealized intercompany profits are eliminated in the consolidation. The annual reporting period for all Group companies ends on December 31.

Changes in Accounting Principles

Swiss GAAP FER Framework Concept – Swiss GAAP FER 3 – Swiss GAAP FER 6

The Swiss GAAP FER Commission has undertaken revisions concerning revenue recognition and its disclosure, which will be effective from January 1, 2016. These changes had no significant effect on the results and the disclosure of the Siegfried Group.

Change in reporting of interest effects on foreign pension liabilities

All effects on foreign pension plans affecting the result deriving from a change in the actuarial interest rate for foreign pension liabilities and are reflected in the form of discounting or compounding of the employee pension liabilities are now recognized and reported in the Financial Result instead of Personnel Cost. The impact of this change on the prior year is described in Notes 17 and 20.

Accounting Principles

Business Combinations

Acquisitions of subsidiary companies are reported according to the purchase method. The purchase costs of a business combination include the sum of the fair market value of the acquired assets and additional Goodwill, debts and contingent liabilities, and issued equity instruments at the acquisition date. Purchased Goodwill is eliminated against equity. If the initial accounting for a business combination is incomplete by the end of the reporting period, in which the combination occurred, the combination is accounted for using provisional amounts. Adjustment of the provisional amounts and the recognition of additionally identified assets and liabilities must be undertaken within the measurement period, if new information about facts and circumstances is obtained that existed at the acquisition date.

Segment Reporting

The Siegfried Group consists of one „reportable segment". The decision takers measure the performance of the company based on the financial information at the level of the Siegfried Group as a whole.

Foreign Currency Translation

The positions of the individual financial statements are valued on a functional currency basis. The Consolidated Financial Statements are denominated in Swiss francs. The functional currency of the Group companies is the respective local currency, apart from Siegfried Hong Kong Ltd., which keeps its books in RMB. Balance Sheets stated in foreign currencies are translated at the year-end exchange rates, the corresponding Income Statements at the average annual exchange rates, which should not differ significantly from the exchange rates prevailing on the transaction dates. The exchange rate differences arising from the translation of the Financial Statements are recognized directly in the Consolidated Equity. Exchange rate differences arising on intercompany loans that, in substance, form part of the net investment in that subsidiary, are also recognized in equity. Intercompany loans are regarded as part of a net investment in a subsidiary, if the settlement of these loans is neither planned nor likely to occur in the foreseeable future. All other exchange rate differences are included in the Income Statement.

The exchange rates applied to the Group's most important foreign currencies are as follows:

Balance Sheet

Year-end rates	2016	2015
1 USD	1.021	0.989
1 EUR	1.075	1.080
100 RMB	14.681	15.224

Income Statement

Average rates	2016	2015
1 USD	0.985	0.963
1 EUR	1.090	1.069
100 RMB	14.830	15.488

Property, Plant and Equipment

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation. Land is not depreciated. Depreciation is charged on a straight-line basis over the following estimated useful life of the assets:

Buildings and leasehold improvements	10–30 years
Machinery and equipment	5–15 years
Vehicles	5–10 years
IT-Hardware	3–5 years

In the context of the periodical update of the accounting manual the useful lives of the asset categories will be adjusted.

If parts of a fixed asset have different useful lives, they are recognized and depreciated as separate assets. The useful lives of assets are evaluated at least once a year at the reporting date and, if necessary, amended. Property, plant and equipment are excluded from the Balance Sheet upon retirement, or when no value in use can be expected. Maintenance and repair costs are recognized in the Income Statement. Subsequent purchase and production costs are capitalized, only if a future economic benefit is expected and the costs of the asset can be reliably determined.

Leasing

Leased property, plant and equipment for which the significant risks and rewards are transferred to the Group are disclosed as Financial Leases respectively as asset and liability. All other lease agreements are classified as Operating Leases. Leasing liabilities from Operating Leases, which cannot be terminated within one year, are disclosed in the Notes to the Consolidated Financial Statements. Currently the Siegfried Group has entered only into Operating Leases and no Financial Leases.

Intangible Assets

Intangible assets consist of licenses, patents, trademarks, technology, software and land use rights in China. If there are indications of impairment, intangible assets are tested for recoverability. Software is accounted for at cost of acquisition or of production plus costs of placing it in a usable condition less accumulated amortization and any accumulated impairment losses. It is amortized on a straight-line basis over the estimated useful life. If there are indications of impairment, the software is tested for recoverability. All intangible assets are amortized over the shorter of their following legal and economic lives:

Land use rights China	50 years
Licenses, patents and client base	The shorter of economic or legal life, as a rule 5–20 years
Software	3–5 years

Impairment tests are carried out whenever there are indications that intangible assets may be impaired. If the carrying amount is greater than the recoverable amount, being the higher of the fair market value less costs of disposal and value in use, the carrying amount is reduced to the recoverable amount. This reduction is recognized in the Consolidated Income Statement as expense.

Impairment of Non-Financial Non-Current Assets

An assessment whether the value of property, plant and equipment and other non-current assets with finite useful life may be impaired is undertaken if as a result of events or changed circumstances it appears possible that the carrying amounts are not recoverable. If the carrying amount exceeds the recoverable amount, then an impairment is recorded to this amount. The recoverable amount is the higher of the asset's net recoverable value and the value in use. When an impairment loss arises the useful life of the asset in question is reviewed and, if necessary, the future depreciation charge is accelerated.

An impairment loss recognized in a previous period should be partially or fully reversed if the factors determining the recoverable amount improved significantly. In such cases, the new carrying amount is the lower of the new determined recoverable amount and the carrying amount less depreciation as if an impairment loss had never been recognized. The reversal of impairment is to be debited to the operating result.

Securities / Financial Assets

Securities are a part of the current assets and are valued at market price. If no market value is available the securities are valued at acquisition cost less any impairment. Financial assets are carried at acquisition cost less impairment, if any.

Inventories

Inventories include raw materials, supplies, semi-finished goods, finished goods and trading goods. They are measured at the lower of acquisition or production cost and net recoverable value. Production costs comprise all manufacturing costs including an appropriate share of production overheads. Costs are assigned to inventory based on the first-in, first-out method. Appropriate valuation allowances are made for obsolete and slow-moving inventory items. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Settlement discounts are treated as reductions in the purchase price.

Trade Receivables

Trade receivables are included initially at nominal value and subsequently at amortized cost; this is equal to the amounts invoiced after deducting allowances for doubtful accounts. Indications for possible impairment are given if payment is delayed, the customer is experiencing financial difficulties, or recapitalization or bankruptcy is likely. Allowances for doubtful accounts are established based on the difference between the net present value of the nominal amount of the receivables and the estimated net collectible amount. The expected loss is recognized in the Income Statement in the line item marketing and sales. When a trade receivable becomes uncollectible, it is derecognized against the allowance for doubtful accounts.

Other Receivables

This caption includes mainly VAT receivables and other receivables. They are recorded at net realizable value.

Accrued Income and Prepaid Expenses

Accrued income is valued at nominal value and contains payments made for the following financial year and accrued income which will be received in the next period.

Cash

Cash consists of cash, balances held in bank accounts and short-term deposits with a maturity of three months or less from the date of acquisition and are carried at current value. Cash is the defined fund of the Consolidated Cash Flow Statement.

Equity / Treasury Shares

A purchase of treasury shares by a Group company, including all costs, is recorded against equity, until the shares are redeemed, reissued, or sold. If treasury shares are issued or sold at a later date, the net consideration less directly attributable transaction costs and income taxes is recorded in equity.

Equity / Hybrid Bonds

The hybrid bonds are subordinated bonds with an indeterminate duration. The hybrid bonds have a first call date after five years. If this is not exercised, the result is a higher rate of interest payable (step up). The privately placed hybrid bond has in addition an optional right to convert into shares in Siegfried Holding AG. The hybrid bonds are therefore classified as equity and interest payments thereon are treated as reductions in equity.

Financial Liabilities

All financial liabilities are recorded under current or non-current financial liabilities. The non-current financial liabilities include all liabilities with a residual duration of more than one year. The current financial liabilities include all liabilities with a duration of less than one year, including the current portion of non-current liabilities. If at the reporting date there is a binding commitment to extend a maturing loan, it is classified according to the new duration.

Other Liabilities

Other liabilities are valued at nominal value and contain mainly VAT liabilities, shift allowances and liabilities from social insurances.

Accrued Expenses

Accrued expenses are valued at nominal value and contain mainly payments which are due in the following financial year but should be expensed in the current financial year.

Provisions

Provisions are recorded if, as a result of a past event, there is a justified probable obligation, the amount and / or due date of which is uncertain but can reasonably be estimated. The calculation of the provision is based on the estimate of the cash outflow to settle the obligation. If time is a significant factor, the amount of the provision is discounted.

Employee Benefits

Pension Plans

The Group operates various employee benefit plans in and outside Switzerland for employees who satisfy the participation criteria. The pension benefits paid are governed by the legal requirements in the respective countries. The employees of the Swiss companies in the Siegfried Group are insured in the Pensionskasse Siegfried and the employees of Siegfried Evionnaz SA in its own pension fund, both legally autonomous foundations. The pension fund is financed by employee and employer contributions. In addition there is an affiliation to a collective foundation. Abroad there are separate pension solutions in Germany for Siegfried PharmaChemikalien Minden GmbH, in France for Siegfried St. Vulbas as well for the companies in the USA.

Pursuant to Swiss GAAP FER 16 economic liabilities and benefits of Swiss pension plans are determined on the basis of accounts drawn up in accordance with Swiss GAAP FER 26. The effective economic effects of all Group pension plans are calculated annually at the reporting date and the resulting liability or economic benefit recognized in the Balance Sheet. Employer contribution reserves are recognized as assets, provided they are not covered by a waiver of use. Changes in value of employer contribution reserves or liabilities are recognized in the Income Statement.

All effects on foreign pension plans affecting the result deriving from a change in the actuarial interest rate and are reflected in the form of discounting or compounding of the employee pension liabilities are recognized and reported in the Financial Result. Changes in pension entitlements earned in the relevant period, effects on the result deriving from a change in commitments and the effects of changes in balances that have actually occurred or of revised assumptions about salary and pension developments and also biometric assumptions are recognized in the operating result as part of the Personnel Cost.

Share-Based Payments

For the members of managements a Long Term Incentive Plan (LTIP) exists. At the beginning of a vesting period of three-years the plan participants acquire a defined number of Performance Share Units (PSU). The valuation of the PSU is undertaken by an external company, which is specialized in the valuation of option and equity plans. The expenses are recognized as personnel expenses on an equal basis over the vesting period. After the three-year vesting period the plan participants are allocated between 0 and 2 shares per acquired PSU.

Further an Employee Share Purchase Plan exists that allows employees, which can not participate to the LTIP to buy shares at a discounted rate of 30% below market value. The share plan is considered as an equity-settled share-based payment plan. The fair value of the shares corresponds to the fair value at grant date. Costs for the employee share plan are recorded as personnel expenses in the period in which the employee performed his/her services. The costs for the shares are adjusted to fair value on the grant date and also recorded as personnel expenses.

BASF operated an employee share purchase plan for its employees, under the terms of which employees were able to acquire rights to future bonus shares by purchase with their own funds. With the sale of the sites Evionnaz, Minden and St. Vulbas by BASF to Siegfried it was no longer possible to continue this plan. In order to be able to offer the employees suitable compensation for the future rights existing at the date of the sale, a share plan limited to ten years was launched, under which the employees will receive in the years 2016–2025 Siegfried shares free of charge.

Profit Sharing / Bonus Plans

The Group operates a Short Term Incentive Plan (STIP), which is compensated annually in cash. These bonus entitlements in cash are recognized on an accrual basis as a liability and expense, if there is a contractual commitment or past business practice that constitutes a de facto commitment. The amount of the performance-based remuneration paid under the STIP is linked to the achievement of corporate, functional and individual targets. At the end of the one-year performance period it is determined whether the corporate, functional and individual goals have been achieved. The achievement scale for the corporate targets stretches from 0% to a maximum of 200%, for functional and individual targets from 0% to a maximum of 150%.

Taxes

The tax expense for the period comprises current and deferred taxes. Current income taxes are calculated on the basis of the taxable result and the tax rate applicable locally. Provisions are made for deferred taxes on all temporary differences between amounts determined for tax purposes and those reported for Group accounting purposes at the actual local tax rates likely to be applied. Deferred tax assets arising from temporary timing differences and tax loss carryforwards are recognized if it is probable that future taxable profits will be available against which the deferred tax assets can be utilized. Management analyzes on an annual basis the financial situation and the expected profits of the concerned companies. Changes in deferred taxes are recognized against net profit unless the tax relates to an item recognized directly in equity. No provisions are made for deferred come taxes on potential future dividends out of retained earnings, as these sums are deemed permanently reinvested.

Net Sales

Net sales represent amounts received and receivable for goods and services supplied to customers after deducting discounts and volume rebates and excluding sales and value-added taxes. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have passed to the buyer. Raw materials supplied by the customer, or raw materials for which the customer carries the risk are not recognized as sales. Income from services is recognized on an accrual basis in accordance with the underlying service agreements.

Cost of Goods Sold

The production costs of the goods and services sold include the direct production costs and the production overheads related to the goods sold and the services rendered.

Other Operating Income

Royalties are recognized in other operating income on an accrual basis in accordance with the terms of the underlying agreement. The remainder of the other operating income also includes gains on the sale of fixed assets and income from activities that are not part of the Siegfried Group's core business.

Research and Development

Research and development costs include wages and salaries, development costs, costs of materials and overheads and are directly expensed.

Dividends

Dividends to shareholders are recorded as liabilities at the time the resolution to pay a dividend is made.

Government Grants

In connection with investment projects some subsidiary companies in the Siegfried Group receive government grants. Government grants are recognized at fair value, only if there is a high probability that the conditions will be met. The grants are recognized in income in the periods, in which the company receives the grants. If the government grants relate to fixed assets, they are deducted in determining the carrying amount of the fixed assets. The grant is recognized as reduced depreciation over the working life of the depreciable fixed assets.

Transactions with Related Parties

Transactions with related parties are defined as a business relationship with shareholders of the Group, with companies which are fully consolidated and other related parties as defined under Swiss GAAP FER 15.

Risk Management

Siegfried's business involves risks which should be identified by the risk management. By identifying risks at an early stage it is possible to take early action. The Board of Directors has delegated the responsibility for the organization and maintenance of a risk management system to the Management.

A distinction is made between operating risks and risks on strategic projects as significant risk classes.

The operating risks were determined separately for the different functional areas. Responsibility for documenting, communicating and managing the current operating risks lies with the Operational Leaders of the functional areas. The operating risks are evaluated and classified according to the probability that they will occur and the amount of damage. The most important risks per functional area are regularly reviewed.

Major projects of a strategic nature are subject within the Siegfried Group to project management. Part of the project management is the ongoing recognition, monitoring and proactive investigation of risks. Responsibility for strategic projects and management of associated risks always lies with a member of the Executive Management.

Operating risks that are expected or have occurred are communicated in monthly reports to the Executive Management. Risks of greater consequence are also communicated in monthly reports to the Board of Directors. The progress of strategic projects is communicated monthly to the Executive Management and at least quarterly also to the Board of Directors. This reporting also includes an up-to-date risk assessment.

At its strategy meeting on June 9 and 10, 2016, the Board of Directors considered in depth the strategic projects and their inherent risks. When there were significant changes, it also called for information at other meetings about risks associated with strategic projects and took respective decisions. Operating risks were discussed and assessed by the Board of Directors at its regular meetings. The most important operational risks per area were defined on December 9, 2016. The Annual Report on the Internal Control System, including its assessment, was also approved at the meeting on December 9, 2016. The risk management and the ICS reports were also pre-discussed in the Audit Committee on November 18, 2016.

Financial Risk Management

Financial risk management within the Group is governed by policies and guidelines approved by Management. These policies cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. Group policies also cover the investment of excess funds and the raising of debts. Both the investment of excess funds and the raising of current and non-current debts are centralized. Risk management strives to minimize the potential negative effects on the Group's financial position.

Market Risks

Siegfried is exposed to market risks which consist mainly of foreign exchange risk, interest rate risk and market value risk.

Foreign Exchange Risks

Siegfried operates across the world and is therefore exposed to movements in foreign currencies affecting its reporting in Swiss francs. Foreign exchange risks arise on business transactions that are not conducted in the Group's functional currency. Siegfried continues to monitor its currency exposures. The Group seeks to reduce the foreign exchange risk with natural hedges. If necessary, the Group will also take forward contracts, swaps or currency options into consideration.

The Siegfried Group is exposed principally to currency risk in respect of the USD and EUR and to a lesser extent of the RMB.

Interest Rate Risks

Interest rate risks arise from movements in interest rates, which could have adverse effects on the Group's net profit or financial position. Interest rate movements can result in changes in interest income and expense on interest bearing assets and liabilities. In addition, they can also, as described under the market value risks below, impact specific assets, liabilities and financial instruments. Within the Siegfried Group, interest rate management is centralized.

The Group may also employ financial instruments, such as interest rate swaps, to hedge against movements in interest rates.

Market Value Risks

Changes in the market value of financial assets and derivative financial instruments can affect the financial position and net profit of the Group. Non-current financial investments, such as investments in subsidiaries, are held for strategic reasons. The Siegfried Group holds no financial investments for speculative purposes. Risks of loss in value are minimized by thorough analysis before purchase and by continuously monitoring the performance and risks of the investments.

Liquidity Risks

The Group companies need to have sufficient access to cash to meet their obligations. The treasury department manages the raising of current and non-current debt. Centrally cash flow forecasting is performed by the operating entities of the Group and aggregated and monitored by Group Treasury.

Credit Risks/Counterparty Risks

Credit risks arise from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations, causing a financial loss to Siegfried. Trade receivables are subject to active risk management focusing on the monitoring and controlling of risks.

The credit risks on other financial assets are limited by the policy of restricting them to institutional partners. Where possible, the latter are controlled by an ongoing review of the classification of their creditworthiness and the limitation of aggregated individual risks. In addition the investment of liquid funds is limited to a single credit institution.

Capital Risk

The capital of the Siegfried Group is managed with a view to ensuring the continuation of operations, to earning an adequate yield for the shareholders and to optimizing the capital structure in order to reduce the cost of capital.

The Siegfried Group monitors its capital structure by reference to the net debt ratio and the equity ratio. The net debt ratio is defined as net debt divided by EBITDA. The equity ratio is defined as equity divided by total assets.

Derivative Financial Instruments

To manage currency and interest rate exposure, Siegfried may use forward exchange contracts as well as interest rate and currency swaps or put options. Derivatives hedging changes in value of an existing underlying transaction are recognized applying the same valuation principles that are applied to the underlying hedged transaction. A derivative is derecognized as soon as it matures (or an early option is exercised) or as soon as, following a sale or default by the counterparty, no further claim on future payments exists.

Estimates, Assumptions and Accounting Judgments

The compilation of Consolidated Financial Statements in accordance with Swiss GAAP FER requires estimates, assumptions and accounting judgments. The most important forward looking assumptions, from which a substantial risk may arise that could lead to a material adjustment to assets and liabilities within a year, are outlined on the following page.

Impairment Test of Non-Financial Non-Current Assets

In compliance with the above accounting principles the recoverability of the net assets is tested if there is any indication of impairment. The recoverable amount of the cash-generating units is calculated using the Discounted Cash Flow method, based on approved mid-range plans. These calculations require management to make forward looking assumptions and estimates.

Deferred Tax Assets

Deferred tax benefits from unused tax losses and deductible temporary differences are considered to the extent to which it is probable that future profits will be earned, against which they can be used. Management assesses the capitalization of tax losses and tax credits on an annual basis based on the taxable profits expected in the future. The tax rates are based on the effective and expected tax rates applicable for the relevant companies.

At December 31, 2016, Siegfried had available unrecognized tax losses and tax credits of CHF 139.4 million (see also Note 6).

Environmental Provisions

Provisions relate to obligations to eliminate environmental pollution. Future decontamination costs depend on the regulatory status and management decisions on future construction projects. Depending on the nature and scope of the construction projects realized, the obligation to eliminate detrimental effects on the environment is increased or reduced. The environmental provision amounting to CHF 33.0 million would as a consequence be higher or lower (see also Note 13).

1. Scope of Consolidation

The consolidation includes the following companies:

Group companies	Share capital	in LC	
Operating			
Siegfried AG, Zofingen (Switzerland)	20 000 000	CHF	100.00%
Siegfried USA, LLC, Pennsville (USA)	500 000	USD	100.00%
Siegfried International AG, Zofingen (Switzerland)	2 000 000	CHF	100.00%
Siegfried Malta Ltd, Valletta (Malta)	100 000	EUR	100.00%
Siegfried GmbH, Munich (Germany)	25 000	EUR	100.00%
Siegfried Hong Kong Ltd, Hong Kong (China)	1 000	HKD	100.00%
Alliance Medical Products Inc., Irvine (USA)	116 521	USD	100.00%
Siegfried (Nantong) Pharmaceuticals Co. Ltd, Nantong (China)	422 296 722	CNY	100.00%
hameln pharmaceuticals gmbh, Hameln (Germany)	750 000	EUR	100.00%
hameln rds gmbh, Hameln (Germany)	30 000	EUR	100.00%
Siegfried Evionnaz SA, Evionnaz (Switzerland)	1 000 000	CHF	100.00%
Siegried PharmaChemikalien Minden GmbH, Minden (Germany)	50 000	EUR	100.00%
Siegfried St. Vulbas SAS, Saint Vulbas (France)	15 200 000	EUR	100.00%
Finance and administration			
Siegfried Holding AG, Zofingen (Switzerland)	8 333 182	CHF	100.00%
Siegfried Finance AG, Zofingen (Switzerland)	14 000 000	CHF	100.00%
Siegfried Deutschland Holding GmbH, Lörrach (Germany)	1 790 000	EUR	100.00%
Siegfried USA Holding Inc., Pennsville (USA)	3 000	USD	100.00%
Siegfried Deutschland Real Estate GmbH, Lörrach (Germany)	25 000	EUR	100.00%
hameln real estate gmbh + co. kg, Hameln (Germany)	25 000	EUR	100.00%
Joint venture			
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	10 542 708	CNY	49.00%

In 2016 the scope of Siegfried's consolidation and the corresponding shareholdings remained unchanged. The share capital of Siegfried Holding AG increased in 2016 following the issue of shares out of the conditional capital under employee benefit programmes, see Note 11.

2. Property, Plant and Equipment

In 1000 CHF	Land	Buildings and leasehold improvements	Machinery and equipment	Prepayments	Assets under construction	Total
Acquisition costs						
As of January 1, 2015	7 710	191 900	508 987	1 474	117 780	827 851
Translation differences	–37	–3 326	–3 706	–76	–4 281	–11 426
Change in scope of consolidation	15 796	100 022	468 967	–	12 132	596 917
Additions	337	609	12 915	–7	74 589	88 442
Disposals	–	–5 928	–35 921	–	–	–41 849
Reclassifications	–	14 096	24 802	–1 686	–37 212	0
As of December 31, 2015	**23 806**	**297 373**	**976 044**	**–295**	**163 008**	**1 459 936**
Translation differences	–23	465	562	–55	–1 894	–945
Additions	17	4 184	20 388	–536	45 383	69 436
Disposals	–	–32	–1 291	–142	–	–1 465
Reclassifications	–	10 748	–34 317	4	–96 137	–119 702
	23 800	**312 738**	**961 386**	**–1 024**	**110 360**	**1 407 260**
Accumulated depreciation and impairments						
As of January 1, 2015	–	112 959	399 965	–	–	512 924
Translation differences	–	–1 043	–1 195	–	–	–2 238
Change in scope of consolidation	–	79 262	405 376	–	–	484 638
Depreciation charge	–	4 983	27 844	–	–	32 827
Disposals	–	–4 799	–33 376	–	–	–38 175
As of December 31, 2015	**–**	**191 362**	**798 614**	**–**	**–**	**989 976**
Translation differences	–	418	775	–	–	1 193
Depreciation charge	–	8 263	40 622	–	–	48 885
Disposals	–	–18	–1 308	–	–	–1 326
Reclassifications	–	–12 760	–106 942	–	–	–119 702
As of December 31, 2016	**–**	**187 265**	**731 761**	**–**	**–**	**919 026**
Net book value 31.12.2016	**23 800**	**125 473**	**229 625**	**–1 024**	**110 360**	**488 234**
Net book value 31.12.2015	**23 805**	**106 011**	**177 430**	**–295**	**163 008**	**469 959**

At December 31, 2016, Land included CHF 6.4 million (2015: CHF 6.4 million) undeveloped property.

Borrowing costs of CHF 0.6 million (2015: CHF 0.8 million) in connection with the financing of Nantong was capitalized.

As of December 31, 2016, commitments for the purchase of property, plant and equipment amounted to CHF 7.9 million (2015: CHF 11.5 million).

In 2016 an impairment of production equipment recorded in the prior year in the amount of CHF 2.1 million was reversed and credited to general costs. The new carrying amount is given by the carrying amount after scheduled depreciation, which would have resulted without recognizing the loss.

3. Intangible Assets

In 1000 CHF	Licenses, patents	Client base	Software	Land use rights	Total
Acquisition costs					
As of January 1, 2015	10 764	7 916	10 091	5 344	34 115
Translation differences	–1	–140	–8	–312	–461
Change in scope of consolidation	1 588	97	2 258	–	3 943
Additions	–	–	283	13	296
Disposals	–495	–	–214	–	–709
As of December 31, 2015	**11 856**	**7 873**	**12 410**	**5 045**	**37 184**
Translation differences	356	211	75	–177	465
Additions	–	17	111	40	168
Disposals	–	–97	–123	–	–220
Reclassification	–	–	–1 561	–	–1 561
As of December 31, 2016	**12 212**	**8 004**	**10 912**	**4 908**	**36 036**
Accumulated amortization and impairments					
As of January 1, 2015	6 453	7 868	9 982	323	24 626
Translation differences	11	–138	–11	–25	–163
Change in scope of consolidation	–	–	1 761	–	1 761
Amortization charge	474	43	233	103	853
Disposals	–	–	–32	–	–32
As of December 31, 2015	**6 938**	**7 773**	**11 933**	**401**	**27 045**
Translation differences	244	212	70	–12	514
Amortization charge	648	3	332	130	1 113
Disposals	–	–	–123	–	–123
Reclassification	–	–	–1 561	–	–1 561
As of December 31, 2016	**7 830**	**7 988**	**10 651**	**519**	**26 988**
Net book value December 31, 2016	**4 382**	**16**	**261**	**4 389**	**9 048**
Net book value December 31, 2015	**4 918**	**100**	**477**	**4 644**	**10 139**

The Goodwill which arose upon the acquisition of Alliance Medical Products Inc. (AMP), the Hameln companies and the BASF sites Evionnaz, St. Vulbas and Minden was set off against the Consolidated Equity at the date of purchase. If the Goodwill had been capitalized, the effect on the financial statements would have been as follows:

In 1000 CHF (for the years ended December 31)	2016	2015
Theoretical Goodwill		
As of January 1	160 010	98 325
Additions[1]	–810	61 685
As of December 31	**159 200**	**160 010**
Accumulated amortization		
As of January 1	19 605	11 853
Amortization	10 614	7 752
As of December 31	**30 219**	**19 605**
Theoretical Goodwill December 31	**128 981**	**140 405**

[1] Includes subsequent purchase price adjustments relating to the acquisition of BASF Site Evionnaz, St. Vulbas and Minden 2015.

The theoretical useful life applied for straight-line amortization is 15 years as it is regarded as a long-term investments for Siegfried. The Goodwill out of this acquisition is translated into Swiss francs at the rate prevailing at the date of acquisition. This procedure avoids foreign exchange adjustments to the theoretical Goodwill movements.

In 1000 CHF (for the years ended December 31)	2016	2015
Operating result according to Income Statement	46 714	43 401
Amortization of Goodwill	–10 614	–7 752
Theoretical operating result incl. amortization of Goodwill	**36 100**	**35 649**
Net profit according to Income Statement	27 906	39 100
Amortization of Goodwill	–10 614	–7 752
Theoretical net profit incl. amortization of Goodwill	**17 292**	**31 348**

4. Investment in Associated Companies and Joint Ventures

Alpine Dragon Pharmaceuticals Ltd. was incorporated during 2007 as a joint venture with the Chinese company Gansu Medical Alkaloids, Inc. The impact on the Financial Statements is not material. There are no contingent liabilities or payment commitments in connection with this joint venture.

The investments in associated companies and joint ventures include no Goodwill at the reporting date.

5. Financial and Other Non-Current Assets

Financial assets are classified in the following categories:

In 1000 CHF	2016	2015
Ohter non-current financial assets	30	80
Other non-current assets	3 494	3 344
Total financial and other non-current assets	**3 524**	**3 424**

The other non-current assets include CHF 2.9 million (2015: CHF 3.1 million) deposited as a security for bank guarantees issued in Germany and France in connection with the acquisition of the BASF companies.

6. Income Taxes

In 1000 CHF	2016	2015
Current tax expense	5 058	3 153
Deferred tax expense / income	1 769	–5 202
Total income taxes	**6 827**	**–2 049**

The effective weighted tax rate in 2016 is 21.3% (2015: 29.6%). This would result in a tax expense of CHF 7.4 million (2015: CHF 8.7 million). 2016 resulted in a tax expense of CHF 6.8 million (2015: CHF –2.0 million), which represents a tax rate of 19.7% (2015: –5.5%). The difference between the effective and normalized tax result is based mainly on the capitalization of loss carry forwards not previously capitalized CHF 1.9 million (2015: CHF 3.3 million), the application of non-capitalized loss carry forwards CHF 1.8 million (2015: CHF 1.7 million) and the non-capitalization of new loss carry forwards CHF –4.1 million (2015: CHF –2.4 million). The remaining amount results largely from tax effects from prior periods CHF 0.9 million (2015: CHF 8.2 million).

In 2016 CHF 2.7 million (2015: CHF 4.0 million) deferred tax liabilities were created and CHF 3.8 million released (2015: CHF 2.6 million), giving a net reduction of CHF 1.1 million (2015: increase of CHF 1.4 million). The deferred tax assets derive mainly from the capitalization of tax loss carry forwards and of the temporary difference from accounting for pension liabilities in Minden.

In 1000 CHF	December 31, 2015	Change	December 31, 2016
Deferred tax assets	**48 868**	**–6 065**	**42 803**
Deferred tax liabilities	**5 740**	**–1 102**	**4 638**

The Group has available substantial tax loss carry forwards. Of these at December 31, 2016, CHF 69.2 million have been capitalized (2015: CHF 62.1 million). In addition the Group has available CHF 139.4 million unrecognized tax loss carry forwards (2015: CHF 130.1 million). About 28% of these relate to non-operating companies and with great probability will not be useable (2015: 41%).

The following unrecognized tax losses are available to Siegfried:

In 1000 CHF	2016	2015
Expiry of unrecognized tax losses and tax credits		
Within one year	23 304	1 103
Between one and five years	40 430	62 436
More than five years	75 656	66 576
Total unrecognized tax losses and tax credits	**139 390**	**130 115**

7. Inventories

In 1000 CHF	2016	2015
Raw materials	73 182	74 233
Semi-finished goods	16 864	63 863
Finished goods and trading goods	153 623	118 827
Total inventories	**243 669**	**256 923**

The valuation allowances for inventory amount to CHF 19.4 million (2015: CHF 20.9 million) and are included in the figures above.

8. Trade Receivables

In 1000 CHF	2016	2015
Trade receivables	155 775	124 443
Allowances for doubtful accounts	–4	–464
Total trade receivables	**155 771**	**123 979**

The allowances for doubtful accounts are calculated using the difference between the nominal amount of the receivables and the estimated net amount collectible. The net amount collectible is estimated on the basis of experience.

9. Derivative Financial Instruments

The guidelines on financial risk management are described in the accounting principles. Within the framework of these guidelines the Siegfried Group uses derivative financial instruments to hedge foreign exchange and interest rate risks. The contract value provides information about the volume of outstanding transactions. At the reporting date foreign exchange and interest hedging contracts were open. Foreign currency forward contracts were used to hedge net payment flows in the financial year 2016 aggregating USD 36.0 million and EUR 51.7 million (2015: USD 17.0 million and EUR 7.0 million). In order to hedge interest risks on loans drawn down interest swaps were concluded with several banks in the amount of EUR 27.0 million (2015: USD 38.8 million and EUR 36.0 million). The changes in fair value of these foreign exchange contracts are recognized in the Financial Result and in equity.

Derivative Financial Instruments

	Contract value		Positive fair value		Negative fair value	
In 1000 CHF	**2016**	2015	**2016**	2015	**2016**	2015
Foreign currency swaps	92 060	24 394	471	–	162	211
Interest rate swaps	29 025	77 432	–	–	223	218
Total	**121 085**	**101 826**	**471**	**–**	**385**	**429**

10. Treasury Shares

Treasury shares are deducted at transaction value directly from equity. At December 31, 2016, the book value of the treasury shares was CHF 51.8 million (2015: CHF 37.2 million). The inventory of treasury shares increased significantly in 2016 as a result of the backing for the private hybrid-convertible bond. The average transaction prices of the purchased and sold treasury shares are disclosed in the Notes of the Financial Statements of Siegfried Holding AG on page 146.

Treasury shares	December 31, 2015	Change	**December 31, 2016**
Total treasury shares	**219 940**	**66 731**	**286 671**
Total Siegfried shares	**4 150 000**	**16 591**	**4 166 591**
Total outstanding shares	**3 930 060**	**–50 140**	**3 879 920**

11. Share Capital – Hybrid Capital – Conditional Capital

The share capital of Siegfried Holding AG increased from CHF 8.30 million to CHF 8.33 million as a result of the issue of shares under employee benefit programmes. It is divided into 4 166 591 registered shares each with a nominal value of CHF 2 (2015: 4 150 000 registered shares).

In the financial year 2016 Siegfried Holding AG issued a second public hybrid bond in the amount of CHF 160.0 million, net CHF 158.5 million. It is equipped with the same conditions as the first public hybrid bond in 2015, except that the interest rate is 2.125%.

In the prior year Siegfried Holding AG already issued a public hybrid bond in the amount of CHF 100.0 million. It is a subordinated loan with an indefinite maturity, carrying interest t 3.5%. The hybrid bond has a first call date after five years. If it is not exercised, the interest payable is increased (step up).

Also in 2015 Siegfried Holding AG issued a non-transferable private hybrid convertible bond with a nominal amount of CHF 60.0 million. The hybrid convertible bond is a subordinated loan with an indefinite maturity, carrying interest at 2.5%. The hybrid convertible bond has a first call date after five years. If it is not exercised, the interest payable is increased (step up). In addition there is an optional conversion right at a theoretically determined convertible price, which can be exercised during the duration. The conversion price can change in accordance with the conditions of the convertible bond, in particular if the company pays dividends. The conversion is secured by treasury shares, i.e. without a capital increase.

The conversion by treasury shares is already covered end of 2016, see Note 10.

Conditional capital (number of shares)	December 31, 2015	Change	**December 31, 2016**
Long Term Incentive Plan (LTIP) and other employee benefit plans	210 000	– 16 591	193 409
Total	**210 000**	**– 16 591**	**193 409**

12. Financial Liabilities

The existing syndicated credit agreement in the amount of CHF 241.4 million was reduced in November 2016 to CHF 200 million after a further successful placing of a hybrid bond. This credit line can still be used to finance working capital. The syndicated credit agreement has been extended by an accordion option in the amount of CHF 100 million.

The interest is based on the Libor or Euribor rate, plus an interest margin, which is dependent on a financial covenant of a maximum debt ratio. The second financial covenant includes a minimum equity ratio. The Siegfried Group fulfilled both covenants at the year-end. At December 31, 2016, the equivalent of CHF 91.1 million, including USD, was drawn down (2015: CHF 225.0 million, including USD and EUR).

13. Provisions

In 1000 CHF	Environmental provisions	Other provisions	Total
As of January 1, 2015	14 696	2 324	17 020
Costs incurred	–564	–806	–1 370
Additions, interest	431	9	440
Change in scope of consolidation	21 934	107	22 041
Releases of unused provisions	–	–398	–398
Currency translation	72	1	73
As of December 31, 2015	**36 569**	**1 237**	**37 806**
Thereof current	9 951	737	10 688
Thereof non-current	26 618	500	27 118
As of January 1, 2016	36 569	1 237	37 806
Costs incurred	–1 011	–35	–1 046
Additions, interest	419	592	1 011
Releases of unused provisions	–2 952	–	–2 952
Currency translation	–38	–8	–46
As of December 31, 2016	**32 987**	**1 787**	**34 774**
Thereof current	8 483	1 186	9 669
Thereof non-current	24 504	601	25 105

Environmental provisions

The Siegfried Group produces chemicals at various locations. The production process is such that undesirable incidents may also arise, which result in an obligation to remedy pollutant effects on the environment. In connection with planned construction projects, environmental investigations were performed. Possible remediation obligations of CHF 33.0 million have been provided for (2015: CHF 36.6 million). The liabilities are recognized in the accounting period, in which the obligation becomes evident. A provision is recorded if it is expected that the obligation results in an outflow of economic resources in the medium term and if a reasonable estimate of that obligation can be made. By their nature the amounts and timing of any outflows are difficult to predict.

In the reporting period costs for remediation incurred to CHF 1.0 million (2015: 0.6 million). The start of the planned construction projects is anticipated within the next 15 years. The environmental provision was discounted with 2% (2015: 2%) to the present value of the expected expenditures. The discount amounted to CHF 0.4 million (2015: CHF 0.3 million). Management reviews the provisions annually, based on regulatory changes or changes in planned investments. Accordingly, 2016, CHF 3.0 million environmental provisions were released (2015: CHF 0.0 million).

Other provisions

The other provisions cover costs for extension and demolition work in the amount of CHF 1.1 million (2015: CHF 1.1 million) and CHF 0.6 million for costs incurred in connection with product warranties (2015: CHF 0.1 million). The balance covers other operating liabilities. In the year under review CHF 0.0 million were used (2015: CHF 0.2 million for product warranties and CHF 0.6 million for demolition work).

14. Other Non-Current Liabilities

Other non-current liabilities include liabilities arising from the BASF share transfer plan and long service awards of CHF 1.9 million (CHF 2.0 million).

15. Accruals

Accrued expenses and deferred income amount to CHF 37.6 million (2015: CHF 46.0 million) and include mainly periodic accruals for Personnel Costs and social security charges and various expense and income accruals.

16. Other Current Liabilities

Other current liabilities of CHF 18.0 million (2015: CHF 12.5 million) comprise VAT liabilities and current employee liabilities amounting to CHF 16.2 million (2015: CHF 10.5 million) as well as customer prepayments of CHF 1.8 million (2015: CHF 2.0 million).

17. Employee Benefits and Personnel Expenses

In 1000 CHF	**2016**	2015
Wages and salaries	184 462	149 872
Share-based payments	3 830	2 337
Pension expense	9 058	6 149
Expenses for other long-term employee benefits	857	162
Social and other personnel expenses	46 578	32 660
Total personnel expenses	**244 785**	**191 180**

In the year under review, the average number of employees (in full-time positions) was 2315 (2015: 2238).

In the prior year CHF 0.6 million from current interest on foreign pension liabilities was reported in Personnel Cost. From 2016 the effects of the interest components on the valuation of foreign pension liabilities is, based on the change in accounting principle, reported in the Financial Result, see also Note 20. Because the amount is immaterial, the prior year amounts have not been restated.

Pension liabilities and economic benefits are as follows:

	Excess/ insufficient cover as per FER 26	Economic benefit/ obligation for the company		Change vs. prior year or taken to the Income Statement in the FY	Contributions	Pension expenses in personnel expenses	
In 1000 CHF	31.12.2016	31.12.2016	31.12.2015	31.12.2016	2016	2016	2015
Pension institutions with surplus (CH)	39 103	5	–1	–5	8 064	8 059	5 831
Pension costs (CH)	–290	–290	21	17	9	22	23
Pension schemes with deficit (D)	–112 213	–112 213	–972	131	3 996	284	–1 185
Pension schemes with deficit (FR)	–1 637	–1 637	64	–158	24	–209	44
Pension schemes with deficit (USA)	0.0	0.0	44	–494	1 414	902	1 436
Total	**–75 037**	**–114 135**	**–844**	**–509**	**13 507**	**9 058**	**6 149**

The employer contribution reserves are as follows:

	Nominal value	Waiver of usage	Other value adjustments	Balance Sheet asset		Result from ECR in personnel expenses	
In 1000 CHF	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2015	2016	2015
Pension schemes (CH)	8 882	–	–	8 882	8 763	–119	–37
Total	**8 882**	**–**	**–**	**8 882**	**8 763**	**–119**	**–37**

18. Share-Based Payments

For members of management a Long Term Incentive Plan (LTIP) exists. The plan participants receive at the beginning of a three-year vesting period a defined number of Performance Share Units (PSU). At the end of the three-year vesting period the plan participants are allocated, depending on the extent to which they have attained the targets, a certain number of shares per PSU acquired. Between 0 and 2 shares can be allocated per PSU. The plan defines a target amount for the growth in total shareholder return, compound annual growth rate (CAGR) on total shareholder return (TSR weighting 70%) and two operating targets (EBITDA and ROCE weighting each 15%). After allocation, the shares are at the free disposal of the plan participants and are not subject to a restriction period.

The valuation of the PSU is undertaken at the beginning of the relevant vesting period by an external company, which is specialized in the valuation of option and equity plans. In 2016 for the LTIP Plan period 2016–2018 an expense of CHF 1.0 million was recognized, 26 512 PSUs with a fair value of CHF 103.52, for the LTIP Plan period 2015–2017 an expense of CHF 0.5 million, 21 494 PSUs with a fair value of CHF 72.67 per PSU and for the plan period 2014–2016 an expense of CHF 0.7 million was recognized, 20 186 PSUs with a fair value of CHF 162.99 per PSU.

In addition to the Long Term Incentive Plan (LTIP) an equity plan for employees exists, which cannot participate in the LTIP (Employee Share Purchase Plan – ESPP). In 2016, total 12 591 shares (2015: 5440 shares) were bought by employees. The total expense for the ESPP amounted in the reporting year to CHF 0.7 million (2015: CHF 0.3 million).

The employee share purchase plan existing under BASF for the employees of the sites Evionnaz, Minden and St. Vulbas was replaced by Siegfried with a share plan limited to ten years (2016–2025). In 2016, 198 shares were allocated out of this share plan, which have been taken into account in the purchase price allocation (2015: 2210 shares).

19. Other Operating Income

Other operating income includes a grant from the Chinese state as start-up finance for the production location Nantong in the amount of CHF 2.3 million. Also included are CHF 0.1 million gains on the sale of fixed assets (2015: CHF 2.0 million) and miscellaneous other income of CHF 3.8 million (2015: CHF 10.4 million).

20. Financial Result

The Financial Result of CHF 12.0 million (2015: CHF 6.4 million) comprises CHF 12.6 million (2015: CHF 5.7 million) financial expense, of which CHF 7.8 million (2015: CHF 5.5 million) for debt interest and fees, CHF 4.4 million effect on the result of change in the actuarial interest rate for discounting or compounding foreign pension liabilities (2015: CHF 0.6 million in Personnel Cost, see Note 17), CHF 0.4 million for the compounding of the environmental reserve (2015: CHF 0.3 million), CHF 0.0 million financial income (2015: CHF 0.2 million) and CHF 0.6 million (2015: CHF –0.9 million) foreign exchange differences.

21. Earnings per Share

For the calculation of earnings per share, the number of shares has been reduced by the weighted average shares held by the Group.

	2016	2015
Net profit attributable to Siegfried shareholders (in 1000 CHF)	27 906	39 100
Weighted average number of shares outstanding	3 885 570	3 953 505
Non-diluted earnings per share	**7.18**	**9.89**
Net profit attributable to Siegfried shareholders (in 1000 CHF)	27 906	39 100
Weighted average number of shares outstanding	3 885 570	3 953 505
Adjustment for assumed exercise of share-based payments, where dilutive	79 616	53 442
Diluted earnings per share	**7.04**	**9.76**

22. Distribution per Share

For the financial year 2016 the Board of Directors proposes the distribution of CHF 2.00 per share from the capital contribution reserves (2015: CHF 1.80 per share). If this is approved by the Annual General Meeting on April 20, 2017, it will result in a total payment of CHF 7.8 million to the shareholders. The number of shares entitled for distribution may change by the time of the Annual General Meeting on April 20, 2017 (see proposal for the appropriation of retained earnings and the distribution from capital contribution reserves in financial statements of Siegfried Holding AG).

23. Commitments and Contingencies

The operations of the Group companies continue to be exposed to risks from political, legal, fiscal and regulatory developments, including those related to environmental protection. The nature and frequency of these developments and events, which are not covered by any insurance, are not predictable. Possible obligations that are dependent on future events are disclosed as contingent liabilities. To secure the liabilities in connection with the new syndicated credit there is a guarantee in the amount of CHF 220.0 million (2015: CHF 265.6 million). On December 31, 2016, Siegfried Holding AG gave guarantees to banks in the amount of CHF 5.5 million and EUR 1.5 million (2015: CHF 5.5 million and EUR 1.5 million).

In 2015 a demand for claims for alleged unpaid work on the construction of the site in Nantong was submitted to the Chinese Arbitration Court CIETAC by a construction company. Siegfried contests these claims and has in turn submitted a claim on the construction firm. The procedure will start only in 2016. Therefore, the outcome is currently open and an accurate assessment impossible.

24. Maturity of Rental and Lease Liabilities

	Operating Leases	Operating Leases
In 1000 CHF	**2016**	2015
Due under 1 year	5 231	4 824
Due between 1 and 5 years	25 362	24 256
Due after 5 years	44 554	42 850
Total lease liabilities	**75 147**	**71 930**

Of these liabilities CHF 56.2 million (2015: 48.0 million) relate to the new administration buildings in Zofingen, CHF 1.5 million (2015: CHF 1.5 million) to the production facility in Malta, CHF 11.2 million (2015: CHF 13.5 million) to the production facility in Minden and CHF 3.5 million (2015: CHF 4.7 million) to the production site in Irvine.

25. Transactions with Related Parties

The companies owned by Siegfried are listed in Note 1 "Scope of consolidation". In 2016 no transactions with related parties took place (2015: CHF 0 million) and at the reporting date there were no receivables from or payables to related parties (2015: CHF 0 million). All transactions between fully consolidated companies have been eliminated in the consolidation process and are not disclosed in this Note.

The remuneration of the members of the Board of Directors and the Executive Management is described and presented in detail in the Remuneration Report in sections 4 and 5.

26. Net Sales

The Siegfried Group consists of one segment. The decision makers measure the performance of the Group using fully consolidated results of the reportable Segment Siegfried Group.

Net Sales to Third Parties

In CHF million	2016	2015
Sales of products	714.7	472.6
Services	3.0	8.0
Total net sales	**717.7**	**480.6**

Net Sales by Product Group

In CHF million	2016	2015
Drug Substances	557.9	333.2
Drug Products	159.8	147.4
Total	**717.7**	**480.6**

Geographic Information[1]

The most important markets are Western Europe and the USA.

In CHF million	2016	2015
USA	153.8	153.7
Switzerland	118.0	94.5
Europe (without Switzerland)	405.1	214.7
Other regions	40.8	17.7
Total	**717.7**	**480.6**

[1] by location of customers.

27. Segment Reporting

The Siegfried Group consists of one «reportable segment». Financial information is regularly reported to the Board of Directors at the level of the Siegfried Group as a whole. Based on this financial information the Siegfried Group is managed and their performance is measured.

The Siegfried Group provides its customers with comprehensive and integrated solutions for services in the development and production of active pharmaceutical ingredients, intermediates, complex dosage forms and products from its own portfolio. In principle the companies in the Siegfried Group provide all the services mentioned above.

28. Events after the Reporting Period

There are no significant events after the balance sheet date.

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Siegfried Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year then ended, and Notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

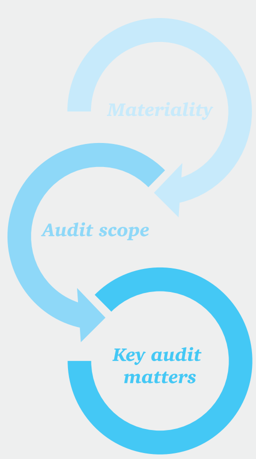
In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the Consolidated Financial Statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach



Overall materiality: CHF 1 600 000

We concluded full scope audit work at nine Group companies in three countries.

Our audit scope addressed 84% of the sales revenue and 75% of the assets of the Group.

Additionally, specific audit procedures were concluded at a further four Group companies in three countries, which cover a further 14% of sales revenue and 10% of the assets of the Group.

As a key audit matter, the following area of focus was identified:

— Impairment testing of deferred tax assets arising from tax loss carryforwards

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the Consolidated Financial Statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Consolidated Financial Statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the Consolidated Financial Statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Consolidated Financial Statements as a whole.

Overall Group materiality	CHF 1 600 000
How we determined it	5% of profit before income taxes (rounded)
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, profit before income taxes is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 160 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Consolidated Financial Statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the internal controls at entity level and at process level, the SAP system used and the identified risks.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of deferred tax assets arising from tax loss carryforwards

Key audit matter	How our audit addressed the key audit matter
We consider the impairment testing of deferred tax assets arising from tax loss carryforwards as a key audit matter for two reasons: Deferred tax assets, consisting of timing differences and tax losses carryforwards, represent a significant amount on the balance sheet (CHF 43 million or approx. 4% of total assets). Additionally, the capitalization of deferred tax assets arising from tax loss carryforwards requires estimates of the tax rates to be applied and assumptions concerning the extent of future taxable profits within the period in which the tax loss carryforwards would need to be utilized through offset against available profits. Please refer to page 114 (Accounting principles) and page 124 (Notes to the Consolidated Financial Statements, 6 Taxes) in the 2016 Annual Report.	We performed the following audit procedures: — We checked whether the Board of Directors approved the medium-term plan defined by Management, the expected taxable profits for the following years and the tax rates used. — We compared the business results of the year under review with the forecasts made in the prior year for tax planning purposes in order to identify any assumptions that in retrospect appeared too optimistic regarding the profits. — We checked whether the method used to calculate the deferred tax assets arising from tax loss carryforwards was applied consistently and was appropriate. — We examined whether it was sufficiently probable that adequate taxable profits would be generated within the permitted period of offset to utilize the tax loss carryforwards. — We compared Management's assumptions concerning revenue growth with economic and industry-specific forecasts. — For each company, we compared the tax rates used by Management with the current or expected future tax rates. On the basis of the audit procedures performed, we have addressed the risk of an incorrect valuation of the deferred tax assets arising from tax loss carryforwards. We have no findings to report.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the Consolidated Financial Statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
— conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
— evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of Consolidated Financial Statements according to the instructions of the Board of Directors.

We recommend that the Consolidated Financial Statements submitted to you be approved.

PricewaterhouseCoopers AG

Gerd Tritschler
Audit expert
Auditor in charge

Andreas Kägi
Audit expert

Basel, 10 March 2017

pwc

Financial Statements Siegfried Holding AG

Balance Sheet of Siegfried Holding AG

In CHF (as of December 31)	2016	2015
Assets		
Current assets		
Cash and cash equivalents	314 161	4 911 482
Securities	10 006	10 006
Other current receivables due from third parties	4 813	6 269
Other current receivables due from Group companies	5 808 114	3 858 140
Accrued income and prepaid expenses	7 394 474	8 856 572
Total current assets	**13 531 568**	**17 642 469**
Non-current assets		
Loans to Group companies	602 805 330	463 934 393
Investments	202 489 677	209 631 976
Property, plant and equipment	434	606
Intangible assets	927	1 544
Total non-current assets	**805 296 368**	**673 568 519**
Total assets	**818 827 936**	**691 210 988**

In CHF	2016	2015
Liabilities and shareholders' equity		
Current liabilities		
Short-term liabilities due from Group companies	30 083 862	20 248 127
Other short-term liabilities due from third parties	149 697	289 283
Accrued expenses and deferred income	5 425 019	2 436 729
Total short-term liabilities	**35 658 578**	**22 974 139**
Non-current liabilities		
Long-term interest-bearing liabilities third parties	35 000 000	69 487 000
Hybrid capital	320 000 000	160 000 000
Total long-term liabilities	**355 000 000**	**229 487 000**
Total liabilities	**390 658 578**	**252 461 139**
Shareholders' equity		
Share capital	8 333 182	8 300 000
Legal reserves	2 800 000	2 800 000
Reserves from capital contribution	100 242 970	104 267 413
Free reserves	353 279 005	351 927 890
Treasury shares	–51 779 430	–37 186 475
Statutory retained earnings	15 293 631	8 641 021
Total shareholders' equity	**428 169 358**	**438 749 849**
Total liabilities and shareholders' equity	**818 827 936**	**691 210 988**

Income Statement of Siegfried Holding AG

In CHF	2016	2015
Income		
Financial income	9 929 307	8 731 670
Service income	13 269 746	9 610 169
Total income	**23 199 053**	**18 341 839**
Expenses		
Personnel expense	204 319	149 590
Administrative expense	3 099 120	8 392 450
Financial expense	4 565 249	1 082 193
Taxes	35 944	75 306
Depreciation on non-current assets	790	1 278
Total expenses	**7 905 422**	**9 700 818**
Net profit	**15 293 631**	**8 641 021**

Notes to the Financial Statements of Siegfried Holding AG

General Information

Siegfried Holding AG holds directly or indirectly all subsidiaries of the Siegfried Group. The Financial Statements of Siegfried Holding AG are prepared in accordance with Swiss Code of Obligations. These financial statements have been drawn up in accordance with the provisions governing commercial accounting of the Swiss Code of Obligations (Art. 957–963b OR, applicable from January 1, 2013).

The number of full-time equivalent employees is not on average above ten.

Guarantees and Securities

As security for the liabilities in connection with the new syndicated loan there is a guarantee in the amount of CHF 220.0 million (2015: CHF 265.6 million). At December 31, 2016, further guarantees had been given by Siegfried Holding AG in favor of banks in the amount of CHF 5.5 million and EUR 1.5 million (2015: CHF 5.5 million and EUR 1.5 million).

Balance Sheet

Investments

As of December 31, 2016, Siegfried Holding AG held the following direct or significant indirect investments:

Group companies	in LC	Participation	Share capital 2016	Share capital 2015
Operating				
Siegfried AG, Zofingen (Switzerland)	CHF	100.00%	20 000 000	20 000 000
Siegfried USA, LLC, Pennsville (USA)	USD	100.00%	500 000	500 000
Siegfried International AG, Zofingen (Switzerland)	CHF	100.00%	2 000 000	2 000 000
Siegfried Malta Ltd, Valletta (Malta)	EUR	100.00%	100 000	100 000
Siegfried GmbH, Munich (Germany)	EUR	100.00%	25 000	25 000
Siegfried Hong Kong Ltd, Hong Kong (China)	HKD	100.00%	1 000	1 000
Alliance Medical Products Inc., Irvine (USA)	USD	100.00%	116 521	116 521
Siegfried (Nantong) Pharmaceuticals Co. Ltd, Nantong (China)	CNY	100.00%	422 296 722	346 925 622
hameln pharmaceuticals gmbh, Hameln (Germany)	EUR	100.00%	750 000	750 000
hameln rds gmbh, Hameln (Germany)	EUR	100.00%	30 000	30 000
Siegfried Evionnaz SA, Evionnaz (Switzerland)	CHF	100.00%	1 000 000	1 000 000
Siegried PharmaChemikalien Minden GmbH, Minden (Germany)	EUR	100.00%	50 000	50 000
Siegfried St. Vulbas SAS, Saint Vulbas (France)	EUR	100.00%	15 200 000	15 200 000
Finance and administration				
Siegfried Finance AG, Zofingen (Switzerland)	CHF	100.00%	14 000 000	14 000 000
Siegfried Deutschland Holding GmbH, Lörrach (Germany)	EUR	100.00%	1 790 000	1 790 000
Siegfried USA Holding Inc., Pennsville (USA)	USD	100.00%	3 000	3 000
Siegfried Deutschland Real Estate GmbH, Lörrach (Germany)	EUR	100.00%	25 000	25 000
hameln real estate gmbh + co. kg, Hameln (Germany)	EUR	100.00%	25 000	25 000
Joint venture				
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	CNY	49.00%	10 542 708	10 542 708

Non-Current Assets

Investments in subsidiaries and affiliates include those companies in which Siegfried Holding AG has an interest of more than 20%. The investments are valued at acquisition cost less valuation allowances. The long-term loans to affiliates are used for the financing of capital expenditures and other operational activities.

The non-current loans to Group companies were granted to finance investments in fixed assets and in other operating projects and activities and increased in 2016 by CHF 138.9 million.

The main reason is the repayment of bank loans by Siegfried Finance AG, which in turn were financed by inter-company loans by Siegfried Holding AG out of the net proceeds of the hybrid bond.

The intangible assets include capitalized software.

Current Assets

Liquid funds are valued at the rate prevailing on the reporting date. Accrued income and prepaid expenses are recognized at nominal amount and include for the most part payments made for the following year and accruals of receipts, which will not be collected until the following year, and include mostly accruals for trademark royalties.

Shareholders' Equity

The share capital of Siegfried Holding AG increased from CHF 8.30 million to CHF 8.33 million as a result of the issue of shares under employee benefit programmes. It is divided into 4 166 591 registered shares each with a nominal value of CHF 2 each (2015: 4 150 000 registered shares). The legal reserves left unchanged by CHF 2.8 million. The reserve from capital contribution decreased net CHF 4.0 million to CHF 100.3 million (2015: CHF 104.3 million), influenced by CHF 7.0 million dividends paid and CHF 3.0 million capital increase of conditional capital. The treasury shares are shown as a negative balance in equity.

Conditional Capital

The conditional capital to serve the Long Term Incentive Plans (LTIP) and other employee share plans amounts after the creation of 16 591 shares to CHF 386 818 for 193 409 shares (2015: CHF 420 000 for 210 000 shares).

Treasury Shares

In the reporting year Siegfried Holding AG has made purchases and sales of Siegfried shares. On balance, the inventory increase by 66 731 shares. The inventory of treasury shares increased further in 2016 as a result of the backing of the private hybrid-convertible bond. The shares are valued at the average rate.

CHF	Number of shares	Average prices
At January 1, 2015	**134 239**	**143.3**
Purchases Jan.–Dec. 2015	255 355	150.3
Sales Jan.–Dec. 2015	–169 654	167.8
At December 31, 2015	**219 940**	**169.1**
Purchases Jan.–Dec. 2016	196 319	175.9
Sales Jan.–Dec. 2016	–129 588	195.2
At December 31, 2016	**286 671**	**180.9**

Liabilities

The existing syndicated credit agreement in the amount of CHF 241.4 million was reduced in November 2016 to CHF 200.0 million after a further successful placing of a hybrid loan. This credit line can still be used to finance working capital. The syndicated credit agreement has been extended by an accordion option in the amount of CHF 100.0 million.

At December 31, 2016, the syndicated loan was drawn down in the equivalent of CHF 91.1 million, including USD. At the reporting date Siegfried Holding had drawn down loans in the amount of CHF 35.0 million (2015: CHF 69.5 million, of which CHF 25.0 million and USD 45.0 million).

On October 26, 2016, a further publicly placed hybrid bond in the amount of CHF 160 million was issued. There already exist a privately placed hybrid convertible bond in the amount of CHF 60 million (issued September 29, 2015) and a publicly placed hybrid bond in the amount of CHF 100 million (issued October 26, 2015). The hybrid bonds are subordinated bonds with an indeterminate duration. The hybrid bonds have a first call date after five years. If this is not exercised, the result is a higher rate of interest payable (step up).

Accrued expenses and deferred income include the deferrals and accruals of various income and expense items mainly unrealized exchange profits.

Income Statement

In the reporting year and in the prior year no dividend distributions were received from subsidiary companies. Financial income includes interest income on receivables from Group companies, exchange gains and income from securities. The proceeds of charging services to Group companies are reported in service income.

Financial expense includes interest on loans from third parties and Group companies as well as exchange losses.

Loans and Share Ownership of the Board of Directors and the Executive Management

Loans to Members of Executive Bodies

The members of the Board of Directors or of the Executive Management and persons closely related to them are, or were, in the current or preceding financial year not involved in transactions beyond the normal business activity of Siegfried Holding AG or of one of its Group companies or in other transactions that in form or substance were unusual, but important for Siegfried Holding AG.

At December 31, 2016, Siegfried Holding AG and its Group companies have not granted any securities, loans, advances or credits to the members of the Board of Directors or the Executive Management or to persons closely related to them.

Share Ownership of the Board of Directors and the Executive Management

In 2016, 4000 shares with a value of CHF 0.7 million were distributed to the members of the Board of Directors. On December 31, 2016, the non-executive members of the Board of Directors and persons closely related to them owned 41 769 (2015: 38 269) registered shares of Siegfried Holding AG. This represents 1.0% (2015: 0.9%) of the entire share capital of Siegfried Holding AG. The members of the Executive Management (including persons closely related to them) owned at the same date 128 054 (2015: 156 999) registered shares, i.e. 3.1% (2015: 3.8%) of the share capital of Siegfried Holding AG.

December 31, 2016

Board of Directors	Function	Number of shares	of which blocked
Dr. Andreas Casutt	Chairman	17 500	3 000
Dr. Thomas Villiger	Vice-Chairman	5 735	1 500
Colin Bond	Member	2 000	1 500
Wolfram Carius	Member	1 500	1 500
Reto Garzetti	Member	14 034	1 500
Martin Schmid	Member	500	500
Ulla Schmidt	Member	500	500
Executive Management			
Dr. Rudolf Hanko	CEO	69 000	2 272
Michael Hüsler	CFO	13 500	1 062
Dr. René Imwinkelried	Head Technical Operations and R&D	10 122	1 223
Arnoud Middel	Head HR Global	4 300	1 032
Marianne Späne	Head Business Development & Sales	19 416	1 416
Dr. Wolfgang Wienand	Head Strategy and M&A, Legal	11 716	1 098

December 31, 2015

Board of Directors	Function	Number of shares	of which blocked
Dr. Andreas Casutt	Chairman	16 500	7 975
Dr. Thomas Villiger	Vice-Chairman	5 735	4 117
Colin Bond	Member	1 500	1 500
Wolfram Carius	Member	1 000	1 000
Reto Garzetti	Member	13 534	5 642
Executive Management			
Dr. Rudolf Hanko	CEO	70 000	31 344
Michael Hüsler	CFO	16 002	15 512
Dr. René Imwinkelried	Head Technical Operations and R&D	11 622	6 824
Arnoud Middel	Head HR Global	6 425	6 418
Marianne Späne	Head Business Development & Sales	25 180	17 145
Dr. Wolfgang Wienand	Head Strategy and M&A, Legal	13 716	12 905
Dr. Walter Kittl (until October 31, 2016)	Head Technical Operations	14 054	11 854

Major Shareholders

In relation to the number of shares existing at year end of 4 166 591 (2015: 4 150 000), the following shareholders holds according to own statements of their numbers of shares more than 3.0% shares of Siegfried Holding AG.

— Tweedy, Browne Company LLC, New York, USA, holds 9.0% (2015: 9.0%).
— Rainer-Marc Frey holds 8.6% (2015: 8.7%).
— The Credit Suisse Funds AG holds 5.1%.
— The Kreissparkasse Biberach, Biberach, Germany (Bayerninvest Kapitalgesellschaft mbH, Munich), holds 3.3% (2015: 3.3%).
— The RAG-Stiftung, Essen, Germany, holds 3.2%.

Events after the Reporting Period

There are no significant events after the balance sheet date.

Proposal of the Board of Directors to the Annual General Meeting of April 20, 2017, regarding Appropriation of the Retained Earnings and the Distribution from Reserves from Capital Contribution

In CHF	2016
Profit for the year	15 293 631
Balance brought forward	–
Statutory retained earnings	15 293 631
Appropriation of retained earnings to free reserves	15 293 631
Balance to be carried forward	**–**
Reserves from capital contribution as of December 31, 2015	104 267 413
Distribution in 2016	–6 997 641
Capital increase	2 973 198
Total reserves from capital contribution as of December 31, 2016	100 242 970
Distribution of CHF 2.00 per registered share on 3 882 474 distribution-entitled shares	–7 764 948
Reserves from capital contribution carried forward	**92 478 022**

The total amount of distribution mentioned in the proposal of the Board of Directors has been calculated on the basis of number of shares entitled for distribution on the day of the approval of the Board of Directors meeting. The number of shares entitled for distribution can still change up to the Annual General Meeting on April 20, 2017.

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report on the audit of the Financial Statements

Opinion

We have audited the Financial Statements of Siegfried Holding AG, which comprise the Balance Sheet as at December 31, 2016, Income Statement for the year then ended and Notes, including a summary of significant accounting policies.

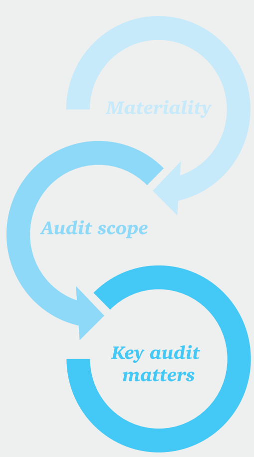
In our opinion, the accompanying Financial Statements as at December 31, 2016, comply with Swiss law and the company's Articles of Incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach



Overall materiality: CHF 550 000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter, the following area of focus was identified:

— Valuation of investments in Group companies

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the Financial Statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the Financial Statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements as a whole.

Overall materiality	CHF 550 000
How we determined it	0.1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because it is a generally accepted benchmark for materiality considerations relating to a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 55 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in Group companies

Key audit matter	How our audit addressed the key audit matter
Siegfried Holding AG holds investments in the companies listed in the notes to the Financial Statements. If any of these investments show indications of impairment, Executive Management performs an impairment test. We consider the valuation of these investments as a key audit matter because of the significance of the amount recognized (CHF 202 million or 25% of total assets) and due to the significant scope for judgement (discount rates and forecasted cash flows) involved in impairment testing. Please refer to page 145 of the Notes to the Financial Statements for information on the accounting policies and the list of investments.	Firstly, we focussed on identifying indications of impairment: — We compared the book value of the investments with the proportional share of the equity in the subsidiary, also at book value. Secondly, for those investments that we identified in the first step as showing indications of impairment, we checked the company valuations calculated by Management using the discounted cash flow method (DCF). — We compared the figures used in the DCF calculations with the figures approved by the Board of Directors in the 2017 budget and the medium-term plan. — We compared the growth rates used with expected industry growth rates. — We checked the appropriateness of the discount rate applied by assessing the cost of capital of the company concerned and comparing it with analogous companies. On the basis of the above-mentioned audit procedures, we have addressed the risk of the incorrect valuation of the equity investments. We have no findings to report.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the Financial Statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of Financial Statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings and capital contribution reserves complies with Swiss law and the company's articles of incorporation. We recommend that the Financial Statements submitted to you be approved.

PricewaterhouseCoopers AG

Gerd Tritschler	Andreas Kägi
Audit expert	Audit expert
Auditor in charge	

Basel, 10 March 2017

pwc

Information for Investors

Siegfried – a Rewarding Investment

Siegfried in the past five years developed into a leading global outsourcing partner of the pharmaceutical industry. The company's value has grown significantly.

Siegfried launched the "Transform" strategy in 2010. The company's main aim was to reach critical size by accelerating sales and earnings growth to secure long-term success. The result of the consistent implementation represents the basis for the "New Siegfried".

Critical Size for the Global Market

Sales of CHF 718 million and approximately 2300 employees give Siegfried the critical size to continue expanding its worth in the global market. Only with critical size can a balance be reached between capacity utilization and short-term availability of capacity for new orders.

Above-Average Growth and Increase in Value

Siegfried has for years produced steady growth. In the past five years, however, sales based on organic and acquisition-related growth increased from CHF 368 million to CHF 718 million, representing average annual growth of 14.3%. In 2016, Siegfried exceeded the EBITDA threshold of CHF 100 million (before integration costs). At the end of 2016, the company's value (market capitalization) amounted to CHF 826 million compared to CHF 435 million at the end of 2012, representing practically a doubling of the market capitalization.

Convincing Yield for Shareholders

In the four years from the end of 2012 to the end of 2016, Siegfried's registered share grew significantly faster than the Swiss Performance Index (SPI). While Siegfried's share grew by 137.3%, the SPI gained only 39.2%.

The Compound Annual Growth Rate (CAGR) of total shareholder return in the past three years amounted to 14.5%, a very good value. With a weighting of 70%, the indicator serves as one of the components used in the Long-Term Incentive Plan (LTIP), Siegfried management's long-term remuneration scheme, and it balances the interests of shareholders with those of Siegfried's management. Thanks to a CAGR total shareholder return of 14.5% for 2014 – 2016, Siegfried even exceeded the maximum target value of 12%. Siegfried traditionally seeks to balance an attractive, predictable distribution policy with the means available for strategy implementation. In view of the favorable business development and within the parameters of earnings performance, the Board of Directors plans to increase payout which, for the coming years, may continue to be paid out from capital reserves.

Leading Global CMO[1]

Siegfried develops and produces Active Pharmaceutical Ingredients (APIs), intermediates and finished dosage forms under one roof. Its core competence lies in the integration of complementary chemical and pharmaceutical capabilities in a single, integrated business model. The attractiveness of this approach lies in high value creation and efficiency.

Comprehensive Technology Portfolio

Siegfried as an integrated quality supplier relies on technological innovation, and every year the company invests heavily in research and development. Own technological innovations based on best ownership combined with selective acquisitions enhance both quality and efficiency of integrated development and production. In the past five years, Siegfried has placed the emphasis in development on the acquisition of new API technologies and on plants for aseptic filling of drugs, an attractive growth segment. New projects comprise state-of-the-art spray dryers as well as investment in new facilities in Nantong and in Zofingen, where a new multi-purpose plant was built in accordance with the progressive vertical flow technology.

Worldwide Production Network

In the course of the past five years, Siegfried's network of development and production sites grew both organically and based on acquisitions to nine sites in Asia, Europe and North America. This diversification offers Siegfried's customers of all sizes individual quality solutions accompanied by high flexibility, reliability of supply, and efficiency during and after patent protection.

Sustainable Growth Platform

Siegfried has a widely diversified portfolio of customers based in all regions of the world with a focus on Europe, North America and Asia. Thanks to our capability to offer comprehensive solutions, Siegfried's customers range from large pharmaceutical organizations to small bio-pharmaceutical companies focusing on a limited part of the value chain, such as drug research and distribution.

216.9

Siegfried share's high in 2016 was registered on 9 September 2016 at CHF 216.90.

1 Contract Manufacturing Organization

Highly-Qualified Employees

True to its quality tradition of over 140 years, more than 2300 highly qualified employees work for the Siegfried Group in six countries on three continents. Shared management principles and corporate values apply to all cultures and unite all employees to a global team based on the promise of "expect more".

A Promising Future

Siegfried will continue to grow in the coming years, and the company will play an active role in the current consolidation of the CMO industry.

Key Figures Overview 2012–2016

Consolidated Figures

		2016	2015	2014	2013	2012
Net sales	CHF million	717.7	480.6	315.3	374.9	367.8
Growth	in %	49.4	52.4	–15.9	2.0	12.1
EBITDA[1]	CHF million	104.2	80.1	58.8	65.6	45.4
Growth	in %	30.1	36.2	–10.4	44.7	24.1
EBITDA margin[1]	in %	14.5	16.7	18.6	17.5	12.3
Operating profit (EBIT)[1]	CHF million	54.2	46.4	34.0	40.8	17.9
Growth	in %	16.8	36.4	–16.7	127.9	43.5
Operating margin[1]	in %	7.6	9.7	10.8	10.9	4.9
Annual result[1]	CHF million	33.4	34.1	38.6	53.9	20.9
Net profit margin[1]	in %	4.6	7.1	12.2	14.4	5.7
Net cash/(net debt)	CHF million	–59.5	–177.3	–85.2	50.4	25.8
Net Working Capital[2]	CHF million	342.3	314.2	147.9	130.1	137.0
As % of net sales		47.7	40.5	41.6	34.7	37.3
Total assets	CHF million	1 021.4	1 003.9	629.6	537.8	477.4
Equity	CHF million	660.7	492.7	382.8	362.4	316.3
Equity ratio	in %	64.7	49.1	60.8	67.4	66.3
Market capitalization[3]	CHF million	826.0	769.0	650.0	572.0	435.0
Average capital employed[4]	CHF million	818.0	562.0	384.7	331.5	327.8
Return on capital employed (average) ROCE[1,5]	in %	12.7	14.2	15.3	19.8	13.8
Cash flow from operating activities	CHF million	57.1	23.1	24.6	67.5	54.3
As % of net sales		8.0	4.8	7.8	18.0	14.8
Free cash flow	CHF million	–11.2	–66.3	–57.3	23.5	38.4
As % of net sales		–1.6	–13.8	–18.2	6.3	10.5
Investments in PPE and intangible assets	CHF million	68.4	95.0	82.0	51.9	22.8
As % of net sales		9.5	19.8	26.0	13.8	6.2
Depreciation and amortization/impairment	CHF million	50.0	33.7	24.8	24.8	27.4
As % of net sales		7.0	7.0	7.9	6.6	7.5
Employees (number of FTEs)[6]	Number	2 315	2 238	1 374	917	832
Change vs. previous year	in %	3.4	62.9	49.8	10.2	16.4
Sales per employee	CHF	310 034	291 600	316 500	408 877	442 012
Change vs. previous year	in %	6.3	–7.9	–22.6	–7.5	–3.7

1 Results 2015 and 2016 before special effects.
2 Calculation of net working capital: Trade Receivables + Inventories – Trade Payables – Customer Prepayments.
3 Calculated on the number of listed shares, net of treasury shares.
4 Calculation of capital employed over twelve months: PPE + Intangible Assets + Net Working Capital.
5 Calculation ROCE: EBITDA in relation to average capital employed over twelve months.
6 Year-end values.

Stock Market Data

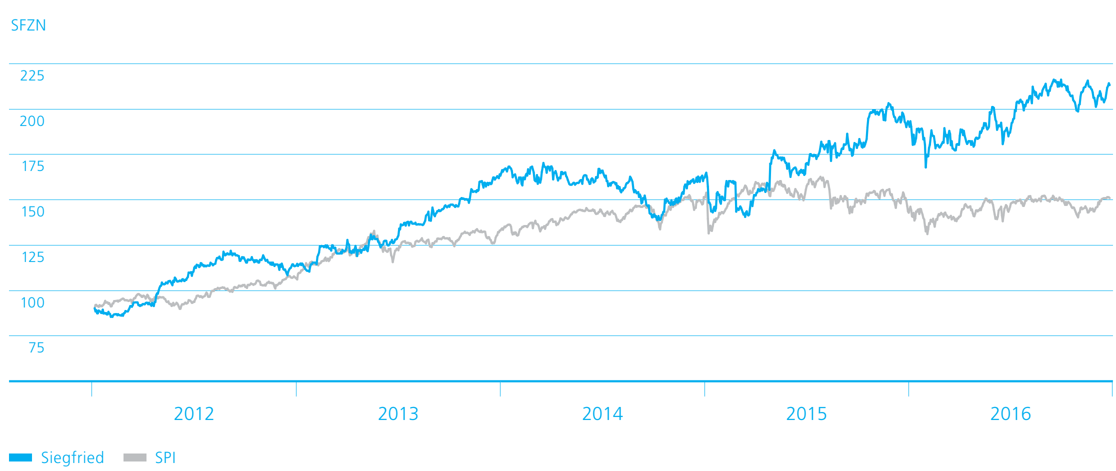
			2016	2015	2014	2013	2012
Registered shares nom. CHF 2			4 166 591	4 150 000	4 150 000	3 800 000	3 800 000
Share capital		CHF million	8.3	8.3	8.3	7.6	7.6
Gross dividend per registered share		CHF	2.00	1.80	1.50	1.50	1.20
Total dividend paid		CHF	7 764 948[1]	6 997 641	5 984 997	5 930 592	4 283 693
Market prices registered share	high	CHF	216.9	206.2	171.0	163.5	122.0
	low	CHF	165.7	139.5	139.0	109.3	83.7
Year-end		CHF	213.0	195.7	162.0	161.6	114.3
Dividend yield per registered share[2]		%	0.9	0.9	0.9	0.9	1.0
Earnings per share – EPS – non-diluted[3]		CHF	7.18	9.89	9.97	15.07	5.76
Earnings per share – EPS – diluted[4]		CHF	7.04	9.76	9.92	13.73	5.55
Consolidated operating cash flow per registered share[3]		CHF	14.7	5.8	8.6	19.0	15.0
Consolidated equity and reserves per registered share[3]		CHF	170.0	124.6	99.0	101.5	87.3
P/E ratio (year-end)[2]			30	20	16	12	21
Market capitalization at year-end[5]		CHF million	826	769	650	572	435

[1] Basis shares entitled to a dividend in accordance with the profit appropriation proposal 2016.
[2] Calculated on the basis of year-end share price and diluted EPS.
[3] Calculated on the weighted average number of shares outstanding, deducting treasury shares.
[4] Adjustment for assumed exercise of share-based payments, where dilutive.
[5] Calculated on the number of listed shares, net of treasury shares.

Siegfried shares are traded on the SIX Swiss stock exchange:

Valor		1 428 449
ISIN		CH 0014 284 498
Stock symbols	Reuters Telekurs	SFFZn SFZN

Share price development from January 1, 2012 to December 31, 2016



Shareholder Base

As of December 31, 2016, 3064 shareholders were registered in the share registry of Siegfried Holding AG, representing a shareholding of 69.23% of the total share capital. The distribution of the shares among the shareholders was as follows:

Distribution of shares as of December 31, 2016	Shareholders	No. of shares per category	%
1–10	351	1 992	0.05
11–100	1 416	78 753	1.89
101–1000	1 085	327 976	7.87
1001–10 000	167	418 231	10.04
10 001–100 000	39	731 160	17.55
100 001–1 000 000	6	1 326 376	31.83
	3 064	2 884 488	69.23
Own shares and non-registered shares	n. a.	1 282 103	30.77
Total shares		**4 166 591**	**100.00**

Shareholdings by segment as of December 31, 2016, was as follows:

Holdings by segment as of December 31, 2016	Shareholders	No. of shares per category	%
Significant shareholders (>3%)	5[1]	1 218 476	29.24
Individuals	2 801	828 317	19.88
Institutional investors	260	837 695	20.11
Own shares and non-registered shares	n. a.	1 282 103	30.77
Total shares	n. a.	**4 166 591**	**100.00**

[1] According to SIX disclosure notifications; excluding own shares.

About this Annual Report

In addition to highlighting Siegfried's business performance and its position concerning assets, finances and earnings, this report throws light on the company's commitment concerning sustainability and its interaction with society and the various stakeholders. They are to gain a comprehensive and differentiated understanding of how Siegfried incorporates these issues into its corporate strategy and of progress achieved in this regard in the course of the year. The report appears in English and German language.

Scope

We report on the 2016 financial year ending 31 December 2016. The future-oriented topics dealt with in the report represent an exception. Siegfried's Annual Report appears annually and was last published in March 2016, both in a printed version and as PDF on our corporate website. The next report will come out in the spring of 2018.

The accompanying publication, "Creating Value"/"Excelling Operationally" is jointly applicable to this report.

Governance

Our statement concerning Governance describes the principles of management and the control of the Siegfried Group. Essentially, the Siegfried Group's corporate governance follows the Swiss Code of Best Practice and is subject to regular reviews and further development by the Board of Directors. Any deviations from these guidelines find mention in the report.

Principles of accounting

The Siegfried Group's financial reporting is carried out in accordance with the entire guidelines of Swiss GAAP FER and the provisions of the Swiss law.

External validation

PricewaterhouseCoopers AG (PwC) as auditors reviewed Siegfried Holding AG's Compensation Report for the financial year ending 31 December 2016 and came to the conclusion that it corresponds with the law and with article 14 to 16 of the Ordinance against excessive remuneration for listed stock corporations. The Sustainability Report has not been validated by an independent external party. The process of sustainability reporting was accompanied and supported by BSD Consulting, a consulting firm specializing in sustainability management.

Cautionary Statement regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements identified by words such as "believes", "expects", "anticipates", "projects", "intends", "should", "seeks", "estimates", "future" or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions. Various factors may cause actual results to differ materially in the future from those reflected in forwardlooking statements contained in this Annual Report, among others: (1) pricing and product initiatives of competitors; (2) legislative and regulatory developments and economic conditions; (3) delay or inability in obtaining regulatory approvals or bringing products to market; (4) fluctuations in currency exchange rates and general financial market conditions; (5) uncertainties in the discovery, development or marketing of new products or new uses of existing products, including without limitation negative results of clinical trials or research projects, unexpected side-effects of pipeline or marketed products; (6) increased government pricing pressures; (7) interruptions in production; (8) loss of or inability to obtain adequate protection for intellectual property rights; (9) litigation; (10) loss of key executives or other employees; and (11) adverse publicity and news coverage. The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Siegfried's earnings or earnings per share for 2016 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Siegfried.

expect
more

Siegfried Holding AG
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