

# Financial Report 2019

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Information  
for Investors

# Financial Report

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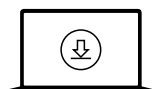
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This is an excerpt of Siegfried's Annual Report 2019.  
All chapters of Siegfried's Annual Report 2019 can be  
downloaded at [report.siegfried.ch](https://report.siegfried.ch).

# Key Figures Overview

	2019	2018	Change CHF (LC)
Net sales (million CHF)	833.5	794.3	+4.9% (+6.9%)
Gross profit (million CHF)	172.7	156.5	10.3%
Gross profit margin (%)	20.7%	19.7%	
Core results <sup>1</sup>			
Core EBITDA (million CHF)	140.7	126.5	11.3%
Core EBITDA margin (%)	16.9%	15.9%	
Core EBIT (operating result) (million CHF)	89.2	76.9	16.0%
Core EBIT margin (%)	10.7%	9.7%	
Core Net profit (million CHF)	65.7	55.4	18.5%
Core Net profit-margin (%)	7.9%	7.0%	
Non-diluted core earnings per share (CHF)	15.88	13.31	19.3%
Diluted core earnings per share (CHF)	15.48	12.90	20.0%
Cash flow from operating activities before change in current assets (million CHF)	135.6	134.9	0.5%
Cash flow from operating activities (million CHF)	65.6	106.0	-38.1%
Free cash flow (million CHF)	3.8	46.0	-91.7%
Investment in property, plant and equipment and intangible assets (million CHF)	61.9	60.1	3.1%
	<b>December 31, 2019</b>	December 31, 2018	Change
Equity (million CHF)	691.7	678.8	1.9%
Total assets (million CHF)	1 168.7	1 103.1	5.9%
Equity ratio (%)	59.2%	61.5%	
Employees (number of FTEs)	2 407	2 294	4.9%

<sup>1</sup> For more information and reconciliation of Swiss GAAP FER to core Results see Financial Report "Investor Information", pages 57–59.

# Financial Commentary 2019

## Positive growth and higher margins

Siegfried sales reported for 2019 at 833.5 Mio Swiss Francs demonstrate continued strong growth. This is in spite of adverse headwinds from a foreign exchange rate movement in the Euro. Sales growth in local currencies is 6.9% and 4.9% in Swiss Francs; Gross Profit 172.7 Mio Swiss Francs has grown ahead of the top line sales by 10.3%.

Siegfried has introduced the core Metrics with the presentation of the half year results in 2019. The core results exclude extraordinary expenses and income. We believe that the disclosure of core results enables market participants a better understanding of the company and allows a better comparison across periods. We use the core results in addition to Swiss GAAP FER as important indicators for the internal assessment of the performance of the group. In the current year 2019, the reported results are corrected for technical and non-cash effects from an interest rate change effect on the value of pension obligations from foreign pension plans and extraordinary effects from changes in the Swiss tax law.

Core EBITDA (CHF 140.7 Mio., +11.3%), core EBIT (CHF 89.2 Mio., +16.0%) and core Net Profit (CHF 65.7 Mio., +18.5%) all demonstrate positive growth above the relative increase in sales over the prior reporting period. This has led to a core EBITDA margin of 16.9% (prior year 15.9%). Additionally both core EBIT and core Net Profit show growth against prior year of 10.7% and 7.9% respectively.

## Strong Growth of core EBITDA

The reported Sales at 833.5 Mio. Swiss Francs consists of 638.6 Mio Swiss Franc Drug Substances and 194.9 Mio. Swiss Francs Drug Product sales. Drug Substances grew strongly by 7.2% on a consolidated Swiss Franc basis (+9.0% in local currencies). In the reporting year Drug Products grew by 0.5% on a local currency basis (-2.0% consolidated). Since 2015 Drug Products sales have grown on average 7.5% per year from 147.4 Mio Swiss Francs to their current level 194.9 Mio Swiss Francs.

Gross Profit has correspondingly grown by 10.3% to 172.7 Mio Swiss Francs and Gross Profit Margin has increased by 1% point to 20.7%.

Marketing and Sales costs remain practically unchanged from the previous year at 16.6 Mio Swiss Francs. For Siegfried Research and Development remains an important aspect of our business, this is reflected in the increased spend in 2019 of 33.3 Mio Swiss Francs, +5.8 Mio Swiss Francs versus prior year. Administration and other overhead costs within the core results are 38.1 Mio Swiss Francs, this is significantly lower than prior year driven amongst other things by Exchange rates. Other Income is 4.5 Mio Swiss Francs which is a slight reduction versus prior year (6.7 Mio Swiss Francs).

In total, the above delivers a strong core EBITDA of 140.7 Mio Swiss Francs, core EBITDA Margin at 16.9% is +11.3% growth over the prior year.

## Lower Financing Costs help drive a higher Net Profit

Core Financing costs and charges in total were 5.2 Mio Swiss Francs. This is lower than in the prior year, despite a higher utilization of the Syndicated Loan Facility, namely for the financing of purchases of treasury shares. In relation to the core Net Profit, the tax charges remain unchanged against prior year at an effective tax rate of 20%. The result is that core Net Profit at 65.7 Mio Swiss Francs shows significant growth +18.5% versus prior year.

## Cashflow and Reduction of Net Working Capital

Operating Cash flow before change in Net Working Capital is 135.6 Mio Swiss Francs, identical to prior year. Change in Networking Capital shows a temporary increase in Inventories of 34.5 Mio Swiss Francs driven by Semi Finished Goods, i.e. work in process which will be converted to sales in the coming reporting periods.

In a mid term view, the focus of the Siegfried Group for the last three years has been to significantly reduce working capital relative to sales. Above all, two components of net working capital contributed to this development: The inventory days (the average length of stay in the warehouse) decreased from 171 days in 2017 to 167 days in the reporting year. The days payables outstanding finally rose from 41 days in 2017 to 47 in the reporting year.

Capital investments in tangible and intangibles assets are approximately equal to the prior reporting period at 61.9 Mio Swiss Francs.

A total of 23.0 Mio Swiss Francs (net) was spent on the purchase of treasury shares in 2019. At the end of the year, Siegfried held 199 586 treasury shares at an average price of 368.20 Swiss Francs per share. Owned treasury shares at year end have a market value of 93.6 Mio Swiss Francs at a share price of 469.00 Swiss Francs.

At the year end 2019 Siegfried had 25.4 Mio Swiss Francs in Cash and Cash Equivalents. Outstanding credit / loan arrangements amounted to 135 Mio Swiss Francs, this results in a Net Debt position of 109.6 Mio Swiss Francs. Net Debt to core EBITDA ratio is 0.78. With a Equity ratio of 59.2% Siegfried is in a healthy position to take on more debt as required to fund growth as needed.

At the Annual General Meeting on April 17, 2020, the Board of Directors will propose to reduce the par value from 27.00 Swiss Francs per share by 2.80 to 24.20 Swiss Francs per share and to distribute the amount of the par value reduction of 2.80 Swiss Francs per share instead of a dividend.



Dr. Reto Suter  
Chief Financial Officer

# Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2019	2018
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	518 379	520 597
Intangible assets	3	8 467	10 625
Investments in associated companies and joint ventures	4	378	416
Financial and other non-current assets		595	579
Employer contribution reserves	16	9 362	8 617
Deferred tax assets	5	41 539	28 402
<b>Total non-current assets</b>		<b>578 720</b>	<b>569 236</b>
<b>Current assets</b>			
Inventories	6	256 958	227 546
Trade receivables	7	245 415	217 009
Other current assets		48 555	38 566
Accrued income and prepaid expenses		7 522	6 373
Current income taxes		5 342	3 992
Securities		30	30
Derivative financial instruments	8	726	477
Cash and cash equivalents		25 443	39 880
<b>Total current assets</b>		<b>589 991</b>	<b>533 873</b>
<b>Total assets</b>		<b>1 168 711</b>	<b>1 103 109</b>
<b>Liabilities and equity</b>			
<b>Equity</b>			
Share capital	10	116 262	8 514
Treasury shares	9	-77 005	-56 139
Capital reserves		48 818	79 668
Hybrid capital		255 985	255 985
Retained earnings		347 619	390 749
<b>Total equity</b>		<b>691 679</b>	<b>678 777</b>
<b>Non-current liabilities</b>			
Non-current financial liabilities	11	-	110 000
Non-current provisions	12	14 972	28 917
Deferred tax liabilities	5	11 959	8 559
Other non-current liabilities	13	1 783	1 576
Non-current pension liabilities	16	146 790	123 986
<b>Total non-current liabilities</b>		<b>175 504</b>	<b>273 038</b>
<b>Current liabilities</b>			
Trade payables		78 915	69 344
Other current liabilities	15	43 743	31 887
Accrued expenses and deferred income	14	31 052	34 548
Other current financial liabilities	11	135 000	-
Current pension liabilities	16	506	499
Current provisions	12	9 503	10 598
Current income tax liabilities		2 809	4 418
<b>Total current liabilities</b>		<b>301 528</b>	<b>151 294</b>
<b>Total liabilities</b>		<b>477 032</b>	<b>424 332</b>
<b>Total liabilities and equity</b>		<b>1 168 711</b>	<b>1 103 109</b>

\* The Notes on pages 11–39 are an integral part of the Group Financial Statements.

# Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2019	2018
Net sales	25	833 514	794 297
Cost of goods sold		-660 791	-637 768
<b>Gross profit</b>		<b>172 723</b>	<b>156 528</b>
Marketing and sales costs		-16 644	-16 122
Research and development costs		-33 297	-27 471
Administration and general overhead costs		-70 216	-43 350
Other operating income	18	4 504	6 733
Income of associated companies		-27	-38
<b>Operating result</b>		<b>57 042</b>	<b>76 280</b>
Financial income	19	29	74
Financial expenses	19	-3 153	-3 661
Exchange rate differences	19	-2 485	-2 529
<b>Profit before income taxes</b>		<b>51 433</b>	<b>70 164</b>
Income taxes	5	1 713	-13 854
<b>Net profit</b>		<b>53 147</b>	<b>56 310</b>
Non-diluted earnings per share (CHF)	20	12.85	13.52
Diluted earnings per share (CHF)	20	12.53	13.10

\* The Notes on pages 11–39 are an integral part of the Group Financial Statements.



# Consolidated Statement of Cash Flows

In 1000 CHF (for the years ended December 31)	Notes*	2019	2018
<b>Net profit</b>		<b>53 147</b>	<b>56 310</b>
Depreciation and impairment of PP&E and intangible assets	2,3	51 557	49 607
Change in provisions	12	-9 732	336
Other non-cash items <sup>2</sup>		28 787	1 118
Share-based payments	17	7 901	7 382
Exchange rate differences	19	2 485	2 529
Financial income	19	-29	-73
Financial expenses	19	3 153	3 661
Income taxes	5	-1 713	13 854
Income of associated companies	4	27	38
Net result on disposal of property, plant and equipment		-7	187
<b>Cash flow from operating activities before change in NWC</b>		<b>135 576</b>	<b>134 949</b>
Change in net working capital:			
Trade receivables		-29 852	-27 274
Other current assets and accruals		-12 255	-4 487
Inventories		-34 492	19 849
Trade payables		14 143	-1 406
Other current liabilities and accruals		9 586	2 651
Payments out of provisions and pension liabilities		-5 325	-6 581
Income taxes paid		-11 738	-11 700
<b>Cash flow from operating activities</b>		<b>65 643</b>	<b>106 001</b>
Purchase of property, plant and equipment	2	-61 627	-58 779
Proceeds from disposal of property, plant and equipment		50	9
Purchase of intangible and other assets	3	-274	-1 274
Acquisition of Group companies	2, 3, 26	-	-4 754
Investments in financial fixed assets		-24	2 895
Interest received		25	38
Dividend received		4	36
<b>Cash flow from investing activities</b>		<b>-61 846</b>	<b>-61 829</b>
<b>Free cash flow<sup>1</sup></b>		<b>3 792</b>	<b>45 956</b>
Capital increase	10	800	2 025
Change in financial liabilities	11	25 000	10 000
Change in other non-current liabilities		-91	-166
Purchase/Disposal of treasury shares, net		-22 922	-29 439
Interest paid and bank charges		-9 814	-10 390
Distribution to the shareholders of Siegfried Holding AG		-10 793	-9 964
<b>Cash flow from financing activities</b>		<b>-17 820</b>	<b>-37 934</b>
<b>Net change in cash and cash equivalents</b>		<b>-14 022</b>	<b>6 238</b>
Cash and cash equivalents 1/1/		39 880	34 137
Net effect of exchange rate changes on cash		-415	-495
Cash and cash equivalents 31/12/		25 443	39 880

\* The Notes on pages 11–39 are an integral part of the Group Financial Statements.

<sup>1</sup> Calculation Free Cashflow: Operating Cashflow +/- Investment in PPE +/- Investment in Intangible Assets.

<sup>2</sup> Other non-cash effective changes include mainly the effect of the discount rate change on foreign pension plan obligations.

# Consolidated Statement of Changes in Equity

In 1000 CHF	Share capital	Treasury shares	Capital reserves	Hybrid capital	Value fluctuations of financial instruments <sup>1</sup>	Accumulated profits <sup>1</sup>	Offset Goodwill <sup>1,2</sup>	Cumulative translation adjustments <sup>1</sup>	Total equity
<b>As of January 1, 2018</b>	<b>8 422</b>	<b>-21 601</b>	<b>74 193</b>	<b>255 985</b>	<b>901</b>	<b>574 131</b>	<b>-159 200</b>	<b>-65 043</b>	<b>667 787</b>
Net profit	-	-	-	-	-	56 310	-	-	56 310
Distribution to the shareholders	-	-	-9 964	-	-	-	-	-	-9 964
Change in hybrid capital	-	-	-	-	-	-6 900	-	-	-6 900
Changes in financial instruments	-	-	-	-	-1 424	-	-	-	-1 424
Employee share plan	-	-	-	-	-	-5 432	-	-	-5 432
Change in treasury shares	-	-34 538	-	-	-	5 099	-	-	-29 439
Capital increase	92	-	15 556	-	-	-	-	-	15 648
Currency translation differences	-	-	-	-	-	-	-	-7 809	-7 809
<b>As of December 31, 2018</b>	<b>8 514</b>	<b>-56 139</b>	<b>79 668</b>	<b>255 985</b>	<b>-523</b>	<b>623 324</b>	<b>-159 200</b>	<b>-72 852</b>	<b>678 777</b>
Net profit	-	-	-	-	-	53 147	-	-	53 147
Distribution to the shareholders	-	-	-10 793	-	-	-	-	-	-10 793
Change in hybrid capital	-	-	-	-	-	-6 900	-	-	-6 900
Changes in financial instruments	-	-	-	-	-648	-	-	-	-648
Employee share plan	-	-	-	-	-	-9 476	-	-	-9 476
Change in treasury shares	-	-20 866	-	-	-	-2 055	-	-	-22 921
Capital increase	248	-	25 198	-	-	-	-	-	25 446
Transition in reserves from capital contribution	107 500	-	-45 255	-	-	-62 245	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-14 954	-14 954
<b>As of December 31, 2019</b>	<b>116 262</b>	<b>-77 005</b>	<b>48 818</b>	<b>255 985</b>	<b>-1 171</b>	<b>595 796</b>	<b>-159 200</b>	<b>-87 806</b>	<b>691 679</b>

<sup>1</sup> In the Consolidated Balance Sheet these items are disclosed as retained earnings.

<sup>2</sup> For details refer to Note 3 Intangible Assets.

The share capital of Siegfried Holding AG increased from CHF 8.51 million to CHF 116.26 million as a result of the issue of shares under employee benefit programmes and the par value increase by converting capital contribution reserves in the amount of CHF 107.5 million. It is divided into 4 306 000 registered shares each with a par value of CHF 27 (2018: 4 256 749 registered shares each with a par value of CHF 2), see Note 10.

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. 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 February 28, 2020, for presentation to the General Meeting held on April 17, 2020.

### 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 activities. 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.

# 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. 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	2019	2018
1 USD	0.966	0.984
1 EUR	1.085	1.127
100 CNY	13.879	14.310

## Income Statement

Average rates	2019	2018
1 USD	0.994	0.979
1 EUR	1.113	1.155
100 CNY	14.391	14.800

## 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

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 trademarks	The shorter of economic or legal life, as a rule 5–20 years
Software	3–5 years

## Impairment of Non-Financial Non-Current Assets and Intangible Assets

An assessment whether the value of non-financial non-current assets (PPE) and intangible 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. Raw materials are measured at the lower of acquisition or production cost and net recoverable value using the perpetual weighted average price method. Production costs comprise all manufacturing costs including an appropriate share of production overheads. They are measured at standard costs. 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 and Cash Equivalents

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. Siegfried Holding AG can suspend the payment of interest if the business is achieving negative results. 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 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 and Deferred Income

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 and accrued revenue.

## 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 Siegfried Evionnaz SA foundation will be merged into the Zofingen pension fund on January 1, 2020. 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 SAS 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 as Personnel Expenses.

### 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, under the terms of which employees were able to acquire rights to future bonus shares by purchase with their own funds. 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 income taxes on potential future dividends out of retained earnings, as these sums are deemed permanently reinvested.

### **Net Sales, Services and Long-Term Contracts**

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. Income from services is recognized on an accrual basis in accordance with the underlying service agreements.

Development projects and other long-term projects are recognized in accordance with Swiss GAAP FER 22 as long-term contracts. If all the conditions for the application of the PoCM are fulfilled, revenues and profit are realized in line with the progress of the contract; otherwise they are realized on completion of the contract (CCM – Completed Contract Method). The degree of completion is determined using the cost to cost method.

### **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

The other operating income 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.

## 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.

# Risk Management

The company-wide risk management is based on the ISO 31000 standard for risk management and is adjusted to the specific situation of the Siegfried Group. The risk management concept is assessed annually and, if necessary, adjusted and improved.

## Core Targets of Company-Wide Risk Management

With this risk management concept, a well-established risk culture firmly anchored in the company, and clearly defined risk processes, we strive to increase transparency about the risks in the company, which allows us to avoid, transfer or, if worthwhile, carry risks.

## Identification, Evaluation and Management

A risk register is used to assess and classify risks according to strategic, operational, financial and external effects. There is also an estimate of the likelihood of occurrence with the possible financial consequences. From this, the measures for the management of the identified risks are derived and also evaluated. The Corporate Risk Committee monitors the aggregated risks for compliance with internal guidelines and processes and is in regular contact with the respective risk managers. The consolidated risk assessment is submitted to the Executive Committee, the Audit Committee and the Board of Directors for review. Reporting is accelerated in the event of new or changing risks.

At its strategy meeting on July 8 and 9, 2019, 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 November 29, 2019.

The Annual Report on the Internal Control System, including its assessment, was also approved at the meeting on November 29, 2019. The risk management and the ICS reports were also pre-discussed in the Audit Committee on November 15, 2019.

# 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 CNY.

### 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.

### 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 deferred tax assets on tax losses and tax credits on an annual basis based on the taxable profits expected for the next 5 years. The tax rates are based on the effective and expected tax rates applicable for the relevant companies.

At December 31, 2019, Siegfried had available unrecognized tax losses and tax credits of CHF 95.6 million (see Note 5).

#### **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 21.6 million would as a consequence be higher or lower (see Note 12).

# 1. Scope of Consolidation GRI 102-45

The consolidation includes the following companies:

Group companies	Share capital	in LC	Participation
<b>Operating</b>			
Alliance Medical Products Inc., Irvine (USA)	116 521	USD	100.00%
Siegfried AG, Zofingen (Switzerland)	20 000 000	CHF	100.00%
Siegfried Evionnaz SA, Evionnaz (Switzerland)	1 000 000	CHF	100.00%
Siegfried Hameln GmbH, Hameln (Germany)	750 000	EUR	100.00%
Siegfried Malta Ltd, Valletta (Malta)	100 000	EUR	100.00%
Siegfried (Nantong) Pharmaceuticals Co. Ltd, Nantong (China)	422 296 722	CNY	100.00%
Siegfried Pharma AG, Zofingen (Switzerland)	1 000 000	CHF	100.00%
Siegfried PharmaChemikalien Minden GmbH, Minden (Germany)	50 000	EUR	100.00%
Siegfried St. Vulbas SAS, Saint Vulbas (France)	15 200 000	EUR	100.00%
Siegfried USA, LLC, Pennsville (USA)	500 000	USD	100.00%
<b>Finance and administration</b>			
Siegfried Deutschland Holding GmbH, Hameln (Germany)	1 790 000	EUR	100.00%
Siegfried Deutschland Real Estate GmbH, Hameln (Germany)	25 000	EUR	100.00%
Siegfried GmbH, Hameln (Germany)	25 000	EUR	100.00%
Siegfried Hameln Real Estate GmbH + Co. KG, Hameln (Germany)	25 000	EUR	100.00%
Siegfried Hameln Services GmbH, Hameln (Germany)	30 000	EUR	100.00%
Siegfried Holding AG, Zofingen (Switzerland)	116 262 000	CHF	100.00%
Siegfried Hong Kong Ltd, Hong Kong (China)	1 000	HKD	100.00%
Siegfried USA Holding Inc., Pennsville (USA)	3 000	USD	100.00%
<b>Joint venture</b>			
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	10 542 708	CNY	49.00%

Siegfried Finance AG was merged as of October 1, 2019 into Siegfried Holding AG.

The share capital of Siegfried Holding AG increased due to the creation of new shares from contingent capital as part of participation plans by CHF 0.25 million to CHF 8.76 million.

The par value per share has been increased from CHF 2 to CHF 27 by converting capital contribution reserves in the amount of CHF 107.5 million into share capital.

This leads to a new one share capital at the end of the year of CHF 116.3 million. The share capital is divided into 4 306 000 registered shares each with a par value of CHF 27 each (2018: 4 256 749 registered shares with a par value of CHF 2 each), see Note 10.

All participations that are fully consolidated are 100% participations. As a result, there were no minorities from third parties at the end of the period as in the previous year.



## 2. Property, Plant and Equipment

In 1000 CHF	Land	Buildings and leasehold improvements	Machinery and equipment	Assets under construction	Total
<b>Acquisition costs</b>					
As of January 1, 2018	24 101	326 024	1 027 556	120 216	1 497 897
Translation differences	-189	-6 161	-20 653	-1 148	-28 151
Change in scope of consolidation	1 580	13 518	2 260	237	17 595
Additions	206	7 156	19 145	33 173	59 680
Disposals	-166	-318	-10 594	-5	-11 083
Reclassifications	331	4 692	18 136	-23 281	-122
<b>As of December 31, 2018</b>	<b>25 863</b>	<b>344 911</b>	<b>1 035 850</b>	<b>129 192</b>	<b>1 535 816</b>
Translation differences	-182	-6 464	-21 293	-999	-28 938
Additions	-	4 703	15 338	38 607	58 648
Disposals	-	-206	-6 611	-	-6 817
Reclassifications	-	14 294	82 407	-97 820	-1 119
<b>As of December 31, 2019</b>	<b>25 681</b>	<b>357 238</b>	<b>1 105 691</b>	<b>68 981</b>	<b>1 557 590</b>
<b>Accumulated depreciation and impairments</b>					
As of January 1, 2018	-	201 787	795 901	-	997 688
Translation differences	-	-3 882	-15 830	-	-19 712
Depreciation charge	-	9 805	38 326	-	48 131
Disposals	-	-318	-10 570	-	-10 888
<b>As of December 31, 2018</b>	<b>-</b>	<b>207 392</b>	<b>807 827</b>	<b>-</b>	<b>1 015 219</b>
Impairments <sup>1</sup>	-	1 685	853	-	2 538
Translation differences	-	-4 378	-17 072	-	-21 450
Depreciation charge	-	8 730	40 868	-	49 598
Disposals	-	-206	-6 487	-	-6 693
<b>As of December 31, 2019</b>	<b>-</b>	<b>213 223</b>	<b>825 989</b>	<b>-</b>	<b>1 039 212</b>
<b>Net book value 31/12/2019</b>	<b>25 681</b>	<b>144 015</b>	<b>279 702</b>	<b>68 981</b>	<b>518 379</b>
<b>Net book value 31/12/2018</b>	<b>25 863</b>	<b>137 519</b>	<b>228 023</b>	<b>129 192</b>	<b>520 597</b>

<sup>1</sup> Impairment in connection with the cease of operations at Siegfried Pharma AG, see note 12.

At December 31, 2019, Land included CHF 2.6 million (2018: CHF 2.6 million) undeveloped property.

As of December 31, 2019, commitments for the purchase of property, plant and equipment amounted to CHF 12.8 million (2018: CHF 8.0 million).

## 3. Intangible Assets

In 1000 CHF	Licenses, patents	Trademarks	Software	Others	Total
<b>Acquisition costs</b>					
As of January 1, 2018	11 782	6 501	13 395	5 486	37 164
Translation differences	26	15	-101	-281	-341
Change in scope of consolidation	-	-	1 543	-	1 543
Additions	-	-	375	901	1 276
Disposals	-	-	-126	-99	-225
Reclassification	-	-	122	-	122
<b>As of December 31, 2018</b>	<b>11 808</b>	<b>6 516</b>	<b>15 208</b>	<b>6 006</b>	<b>39 538</b>
Translation differences	-196	-119	-158	-193	-666
Additions	-	-	61	213	274
Disposals	-	-	-38	-	-38
Reclassification	-	-	1 118	-	1 118
<b>As of December 31, 2019</b>	<b>11 612</b>	<b>6 397</b>	<b>16 191</b>	<b>6 026</b>	<b>40 226</b>
<b>Accumulated amortization and impairments</b>					
As of January 1, 2018	8 185	6 501	12 409	644	27 739
Translation differences	21	15	-76	-37	-77
Amortization charge	645	-	601	230	1 476
Disposals	-	-	-126	-99	-225
<b>As of December 31, 2018</b>	<b>8 851</b>	<b>6 516</b>	<b>12 808</b>	<b>738</b>	<b>28 913</b>
Impairments <sup>1</sup>	-	-	1 373	-	1 373
Translation differences	-161	-119	-131	-36	-447
Amortization charge	652	-	843	463	1 958
Disposals	-	-	-38	-	-38
<b>As of December 31, 2019</b>	<b>9 342</b>	<b>6 397</b>	<b>14 855</b>	<b>1 165</b>	<b>31 759</b>
<b>Net book value 31/12/2019</b>	<b>2 270</b>	<b>-</b>	<b>1 336</b>	<b>4 861</b>	<b>8 467</b>
<b>Net book value 31/12/2018</b>	<b>2 957</b>	<b>-</b>	<b>2 400</b>	<b>5 268</b>	<b>10 625</b>

<sup>1</sup> Impairment in connection with the cease of operations at Siegfried Pharma AG, see note 12.

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)	2019	2018
<b>Theoretical goodwill</b>		
As of January 1	159 200	159 200
<b>As of December 31</b>	<b>159 200</b>	<b>159 200</b>
<b>Accumulated amortization</b>		
As of January 1	51 447	40 833
Amortization	10 614	10 614
<b>As of December 31</b>	<b>62 061</b>	<b>51 447</b>
<b>Theoretical goodwill December 31</b>	<b>97 139</b>	<b>107 753</b>

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)	2019	2018
Operating result according to income statement	57 042	76 280
Amortization of goodwill	-10 614	-10 614
<b>Theoretical operating result incl. amortization of goodwill</b>	<b>46 428</b>	<b>65 666</b>
Net profit according to income statement	53 147	56 310
Amortization of goodwill	-10 614	-10 614
<b>Theoretical net profit incl. amortization of goodwill</b>	<b>42 533</b>	<b>45 696</b>
Equity according to balance sheet	691 679	678 777
Theoretical capitalization of goodwill (net book value)	97 139	107 753
<b>Theoretical equity incl. net book value of goodwill</b>	<b>788 818</b>	<b>786 530</b>

## 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. Income Taxes

In 1000 CHF	2019	2018
Current tax expense	8 631	6 647
Deferred tax expense	-10 344	7 207
<b>Total income taxes</b>	<b>-1 713</b>	<b>13 854</b>
Group's effective income tax rate (in %)	-3.3	19.7

In %	2019	2018
<b>Reconciliation of the Group's effective tax rate</b>		
<b>Group's average expected tax rate</b>	<b>20.5</b>	<b>20.6</b>
Effect of changes in tax rates /Reassessment of tax loss carry-forwards	0.2	0.1
Non-recognition of tax loss carry-forwards	-7.5	-0.5
Effect of unrecognized tax loss carry-forwards used against taxable profits	-0.8	-0.5
Non-period income taxes	-	0.2
Temporary differences from interest rate change on foreign pension liabilities	-8.3	-0.1
Temporary differences from step up on trademarks	-7.8	-
Other items	0.3	-0.1
<b>Group's effective income tax rate</b>	<b>-3.3</b>	<b>19.7</b>

In 2019 the Group's average expected tax rate is 20.5% (2018: 20.6%). The effective tax rate based on earnings before taxes is -3.3% (2018: 19.7%).

Switzerland approved the TRAF17 on May 19, 2019, thereby confirming the reform of the corporate taxation in Switzerland. The privileged taxation of Siegfried Holding AG will be transferred to ordinary taxation from January 1, 2020. Siegfried Holding AG has used the transitional measure of the step up (existing law) and has capitalized their trademark rights in the tax balance sheet. This leads to a deferred tax asset in Swiss GAAP FER. Existing temporary differences as well as capitalized loss carryforwards in the Swiss Companies were valued at the new tax rate expected for each company. Except Siegfried Evionnaz AG, since the implementation in the canton of Valais is not yet approved.

In 1000 CHF	December 31, 2018	Change	December 31, 2019
<b>Deferred tax assets</b>	<b>28 402</b>	<b>13 137</b>	<b>41 539</b>
<b>Deferred tax liabilities</b>	<b>8 559</b>	<b>3 400</b>	<b>11 959</b>

Deferred tax assets and liabilities are calculated using the tax rates currently applicable and applied to future taxation (CH 8.0%–21.5%, CN 25.0%, DE 30.0%, FR 25.0%, MT 35.0%, US 21.0%).

Deferred tax assets consist of temporary differences and tax loss carry-forwards from individual subsidiaries. As of December 31, 2019, deferred tax assets were capitalized on CHF 33.0 million tax loss carry-forwards (2018: CHF 50.9 million).

In addition the Group has available CHF 95.6 million unrecognized tax loss carry-forwards and tax credits (2018: CHF 110.6 million).

In 1000 CHF	2019	2018
<b>Expiry of unrecognized tax losses and tax credits</b>		
Within one year	416	882
Between one and five years	43 814	44 237
More than five years	51 347	65 450
<b>Total unrecognized tax losses and tax credits</b>	<b>95 577</b>	<b>110 569</b>

## 6. Inventories

In 1000 CHF	2019	2018
Raw materials	80 151	77 026
Semifinished goods	106 770	76 556
Finished goods and trading goods	70 037	73 964
<b>Total inventories</b>	<b>256 958</b>	<b>227 546</b>

The valuation allowances for inventory amount to CHF 16.2 million (2018: CHF 16.6 million) and are included in the figures above.

Produced intermediates are reported together with the work in process as semifinished goods.

As of December 31, 2019, there are CHF 9.6 million semifinished goods from PoCM orders booked in inventory (2018: CHF 0).

## 7. Trade Receivables

In 1000 CHF	2019	2018
Trade receivables	246 016	217 442
Allowances for doubtful accounts	-601	-433
<b>Total trade receivables</b>	<b>245 415</b>	<b>217 009</b>

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.

## 8. 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 2019 aggregating USD 45.0 million and EUR 50.0 million (2018: USD 45.0 million and EUR 22.0 million). The changes in fair value of these foreign exchange contracts are recognized in the Financial Result and in equity depending on the underlying instrument.

In 1000 CHF	Contract value		Positive fair value		Negative fair value	
	2019	2018	2019	2018	2019	2018
Foreign currency swaps	97 749	69 080	726	477	-	-
<b>Total</b>	<b>97 749</b>	<b>69 080</b>	<b>726</b>	<b>477</b>	<b>-</b>	<b>-</b>

## 9. Treasury Shares

Treasury shares are deducted at transaction value directly from equity. At December 31, 2019, the book value of the treasury shares was CHF 77.0 million (2018: CHF 56.1 million).

Treasury shares	December 31, 2018	Change	December 31, 2019
<b>Total treasury shares</b>	<b>139 212</b>	<b>60 374</b>	<b>199 586</b>
<b>Total Siegfried shares</b>	<b>4 256 749</b>	<b>49 251</b>	<b>4 306 000</b>
<b>Total outstanding shares</b>	<b>4 117 537</b>	<b>-11 123</b>	<b>4 106 414</b>

In 2019, 116 799 shares (2018: 259 534 shares) were acquired with an average price of CHF 368.2 (2018: CHF 393.1) and 56 425 shares (2018: 188 913 shares) sold for an average price of CHF 356.0 (2018: CHF 384.3).

## 10. Share Capital – Hybrid Capital – Conditional Capital

The share capital of Siegfried Holding AG increased from CHF 8.51 million to CHF 116.26 million as a result of the issue of shares under employee benefit programs and the increase of nominal value by conversion of reserves from capital contribution. It is divided into 4 256 749 registered shares each with a par value of CHF 27 (2018: 4 256 749 registered shares).

The two public hybrid bonds issued by Siegfried Holding AG are subordinated loans with an indefinite maturity and interest payments by coupon. The hybrid bonds have a first call date after five years. If it is not exercised, the interest payable is increased (step up).

	Issue date	Nominal value	Interest	Call date
Hybrid bond 2015	26.10.2015	100 000	3.500%	26.10.2020
Hybrid bond 2016	26.10.2016	160 000	2.125%	26.10.2021

The Annual General Meeting on April 17, 2019 approved the conditional capital increase of total 215 000 shares for the issue of shares to the Board of Directors and employees of Siegfried Holding AG.

Siegfried Holding AG has at its disposal conditional capital of CHF 5 643 000 for the creation of 209 000 shares with a par value of CHF 27 to serve the Long Term Incentive Plan (LTIP) and other employee benefit plans (2018: CHF 206 502 for 103 251 shares with a par value of CHF 2).

In 2019, 49 251 shares were allocated for participation programs from conditional capital (2018: 45 834 shares). Thereof 6 000 shares were issued after the Annual General Meeting in 2019.

Conditional capital (number of shares)	December 31, 2018	Change	December 31, 2019
Long Term Incentive Plan (LTIP) and other employee benefit plans	103 251	105 749	209 000
<b>Total</b>	<b>103 251</b>	<b>105 749</b>	<b>209 000</b>

## 11. Financial Liabilities

There is a syndicated credit agreement in the amount of CHF 200 million available for working capital financing. Additionally the syndicated credit agreement includes 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, 2019, the equivalent of CHF 135.0 million was drawn down (2018: CHF 110.0 million).

## 12. Provisions

In 1000 CHF	Environmental provisions	Restructuring provisions	Other provisions	Total
As of January 1, 2018	22 714	–	1 154	23 868
Costs incurred	– 1 268	–	– 268	– 1 535
Additions, interest	2 663	–	59	2 722
Change in scope of consolidation	–	16 900	–	16 900
Releases of unused provisions	– 1 809	–	– 577	– 2 386
Currency translation	– 47	–	– 7	– 54
<b>As of December 31, 2018</b>	<b>22 254</b>	<b>16 900</b>	<b>361</b>	<b>39 515</b>
Thereof current	6 396	3 900	302	10 598
Thereof non-current	15 858	13 000	59	28 917
As of January 1, 2019	22 254	16 900	361	39 515
Costs incurred	– 551	– 4 675	– 55	– 5 281
Additions, interest	210	–	7	217
Releases of unused provisions	– 248	– 9 700	–	– 9 948
Currency translation	– 21	–	– 7	– 28
<b>As of December 31, 2019</b>	<b>21 644</b>	<b>2 525</b>	<b>306</b>	<b>24 475</b>
Thereof current	6 728	2 525	250	9 503
Thereof non-current	14 916	–	56	14 972

### Environmental provisions

The Siegfried Group produces chemical products 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 21.6 million have been provided for (2018: CHF 22.3 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 0.6 million (2018: 1.3 million). The start of the planned construction projects is anticipated within the next 15 years. The environmental provision was discounted with 2% (2018: 2%) to the present value of the expected expenditures. The compounding amounted to CHF 0.2 million (2018: discount CHF 0.2 million). Management reviews the provisions annually, based on regulatory changes or changes in planned investments. The review did not result in any adjustments in the reporting year, in prior year CHF 1.8 million environmental provisions were released and CHF 2.7 million were formed.

### Restructuring provisions

In December 2019, Siegfried decided to concentrate the production of finished products (tablets and capsules) from Siegfried Pharma AG, Zofingen, at the Hal Far (Malta) site.

From the restructuring provision in a total of CHF 16.9 million a release of CHF 4.7 was booked in 2019. Essentially for impairment of property, plant and equipment in the amount of CHF 2.5 million and intangible assets in the amount of CHF 1.4 million. The restructuring provision was reassessed and amounts to CHF 2.5 million end of December 2019.

### Other provisions

The other provisions of CHF 0.3 million (2018: 0.4 million) cover costs for extension and demolition work in the amount of CHF 0.1 million (2018: CHF 0.9 million) and CHF 0.1 million for costs incurred in connection with product warranties (2018: CHF 0.1 million).

## 13. Other Non-Current Liabilities

Other non-current liabilities of CHF 1.8 million (2018: CHF 1.6 million) include mainly liabilities arising from long service awards.

## 14. Accrued Expenses and Deferred Income

Accrued expenses and deferred income amount to CHF 31.1 million (2018: CHF 34.5 million) and include mainly periodic accruals for personnel costs and social security charges and various expense and income accruals.

## 15. Other Current Liabilities

Other current liabilities of CHF 43.7 million (2018: CHF 31.9 million) comprise VAT liabilities, precious metals liabilities and current employee liabilities amounting to CHF 40.0 million (2018: CHF 29.7 million) as well as customer prepayments of CHF 3.7 million (2018: CHF 2.2 million).

## 16. Employee Benefits and Personnel Expenses

In 1000 CHF	2019	2018
Wages and salaries	198 912	198 807
Share-based payments	7 901	7 382
Pension expense	40 801	12 767
Expenses for other long-term employee benefits	845	1 097
Social and other personnel expenses	47 481	45 617
<b>Total personnel expenses</b>	<b>295 940</b>	<b>265 670</b>

In the year under review, the average number of employees (in full-time positions) was 2 407 (2018: 2 294).

The reduction in the discount rate of 100 basis points for the interest on pension liabilities at Siegfried PharmaChemikalien Minden GmbH (DE) will lead to a significant increase in pension expenses in 2019 compared to the previous year.

Pension liabilities and economic benefits are as follows:

In 1000 CHF	Excess/insufficient cover <sup>1</sup>	Economic part for the company		Change vs. PY or taken to the Income Statement in the FY <sup>2</sup>	Contributions	Pension expenses (personnel)	
		31/12/2019	31/12/2018			2019	2018
Pension institutions with surplus (CH)	27 569	10	10	–	7 974	7 229	8 551
Pension plans without own assets (DE)	–117 966	–145 147	–122 476	22 671	3 980	31 847	2 768
Pension plans without own assets (FR)	–1 454	–1 643	–1 510	133	24	217	–39
Pension plans without own assets (USA)	–490	–505	–499	6	1 492	1 508	1 487
<b>Total</b>	<b>–92 341</b>	<b>–147 285</b>	<b>–124 475</b>	<b>22 810</b>	<b>13 470</b>	<b>40 801</b>	<b>12 767</b>

<sup>1</sup> For domestic institution, the reported value corresponds to the previous year's SWISS GAAP FER 26 financial statements, for foreign pension plans without own assets (DE, FR & USA), the reported value corresponds to the economical part for the company of the previous year converted using the 2019 year-end balance sheet rate.

<sup>2</sup> currency effects adjusted.

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	31/12/2019	31/12/2019	31/12/2019	31/12/2019	31/12/2018	2019	2018
Pension schemes (CH)	9 362	–	–	9 362	8 617	–745	605
<b>Total</b>	<b>9 362</b>	<b>–</b>	<b>–</b>	<b>9 362</b>	<b>8 617</b>	<b>–745</b>	<b>605</b>

## 17. 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. The recognition of personnel expenses for the current plan periods is based on a performance factor of 1.

For the three current plan periods, the following personnel expenses, including social security charges, were recognized in 2019:

Plan period	Numbers of PSU	Fair Value (CHF)	Personnel expense (in 1000 CHF)
2017–2019	24 036	211.62	1 038
2018–2020	24 594	315.49	2 266
2019–2021	28 505	200.63	2 059
<b>Total</b>			<b>5 363</b>

In March 2019, the shares were transferred for the performance period 2016-2018. The target achievement and thus the performance factor was 177.9%, i.e. 1.779 shares were allocated per PSU, see Remuneration Report.

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 2019, total 3 009 shares (2018: 9751 shares) were bought by employees. The total expense for Siegfried (share 30%) for the ESPP amounted in the reporting year to CHF 0.3 million (2018: CHF 1.3 million).

## 18. Other Operating Income

The Other Operating Income of CHF 4.5 million (2018: CHF 6.7 million) includes revenues from the sale of side products amounting to CHF 2.5 Mio. (2018: CHF 3.3 million) and miscellaneous other income of CHF 2.0 million (2018: CHF 3.4 million).

## 19. Financial Result

The Financial Result of CHF 5.7 million (2018: CHF 6.1 million) comprises CHF 3.2 million financial expense (2018: CHF 3.7 million), financial income of CHF 0.0 million (2018: CHF 0.1 million) and foreign exchange differences of CHF 2.5 million loss (2018: CHF 2.5 million loss).

The financial expense includes CHF 3.5 million (2018: CHF 3.5 million) for debt interest and fees and CHF 0.2 million for the compounding of the environmental reserve (2018: CHF 0.2 million).

## 20. 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.

	2019	2018
Net profit attributable to Siegfried shareholders (in 1000 CHF)	53 147	56 310
Weighted average number of shares outstanding	4 136 268	4 164 125
<b>Non-diluted earnings per share</b>	<b>12.85</b>	<b>13.52</b>
Net profit attributable to Siegfried shareholders (in 1000 CHF)	53 147	56 310
Weighted average number of shares outstanding	4 136 268	4 164 125
Adjustment for assumed exercise of share-based payments, where dilutive	106 675	133 286
<b>Diluted earnings per share</b>	<b>12.53</b>	<b>13.10</b>

Earnings per share are calculated excluding interest on hybrid bonds. Including interest expense attributable to hybrid equity holders, basic earnings per share are CHF 11.18 (2018: CHF 11.87) and diluted earnings per share are CHF 10.90 (2018: CHF 11.50).

## 21. Distribution per Share

At the Annual General Meeting on April 17, 2020, the Board of Directors will propose to reduce the par value from CHF 27.00 per share by CHF 2.80 to CHF 24.20 per share and to distribute the amount of the par value reduction of CHF 2.80 per share instead of a dividend (2018: distribution from capital contribution reserves CHF 2.60 per share).

The repayment of the par value reduction is expected to take place in early July 2020 in accordance with capital reduction procedure in Switzerland under Swiss law.

## 22. Commitments and Contingencies

As security for the liabilities in connection with the syndicated loan there is a guarantee in the amount of CHF 148.5 million (2018: CHF 121.0 million).

At December 31, 2019, guarantees had been given by Siegfried Holding AG in favor of banks in the amount of CHF 5.0 million and EUR 4.0 million (2018: CHF 5.0 million, EUR 2.75 million and USD 50.0 million).

In 2015 a demand for claims for alleged unpaid work amounting to CNY 51.7 million on the construction of the site in Nantong was submitted to the Chinese Arbitration Court CIETAC by a construction company. Siegfried has submitted a counterclaim on the construction company in the amount of CNY 73.2 million. Siegfried contests the claims of the construction company. The procedure was commenced in 2016 and is still pending. The outcome is currently open and the probability of an out flow of funds is considered to be low.

## 23. Maturity of Rental and Lease Liabilities

	Operating Leases	Operating Leases
In 1000 CHF	<b>2019</b>	2018
Due under 1 year	6 807	7 898
Due between 1 and 5 years	23 723	22 967
Due after 5 years	50 012	54 729
<b>Total lease liabilities</b>	<b>80 542</b>	<b>85 594</b>

Of these liabilities CHF 64.1 million (2018: 66.3 million) relate to the new administration buildings in Zofingen, as well as the other production sites as follows: Malta CHF 0.6 million (2018: CHF 0.5 million), Minden CHF 3.1 million (2018: CHF 3.7 million), Hameln CHF 0.8 million (2018: CHF 3.6 million) and Irvine CHF 11.6 million (2018: CHF 11.2 million).

## 24. Transactions with Related Parties

Siegfried has two of its own pension funds in Switzerland. There were no transactions with related parties in the reporting year or in the previous year.

As in prior year no transaction with related parties took place in 2019 and at the reporting date there were no receivables from or payables to related parties.

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.

## 25. Net Sales

### Net Sales by Product Group

In CHF million	2019	2018
Drug Substances	638.6	595.5
Drug Products	194.9	198.8
<b>Total net sales</b>	<b>833.5</b>	<b>794.3</b>

### Net Sales by Foreign Currency

In CHF million	2019	2018
in CHF	251.9	223.4
in EUR	397.8	351.2
in USD	181.8	216.9
in anderen Währungen	2.0	2.7
<b>Total net sales</b>	<b>833.5</b>	<b>794.3</b>

The Net Sales of CHF 833.5 million include CHF 22.7 million (2018: CHF 2.4 million) from long-term contracts under the PoCM.

## 26. Acquisitions

There was no acquisition in 2019.

At the end of March 2018 Siegfried acquired the production facility for finished products (tablets and capsules) including all related employees and business contracts of Arena Pharmaceuticals GmbH in Zofingen.

The purchase price of CHF 4.8 million, including transaction costs, was paid in cash. The acquired balance sheet values showed the following fair values at the time of the acquisition, which were posted to the newly founded Siegfried Pharma AG, Zofingen:

In 1000 CHF	March 31, 2018
Inventories	2 886
Non-current assets	19 138
<b>Total assets</b>	<b>22 024</b>
Current liabilities	369
Non-current liabilities	16 900
Equity	4 755
<b>Total liabilities and equity</b>	<b>22 024</b>

## 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. Post Balance Sheet Events

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 31 December 2019 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

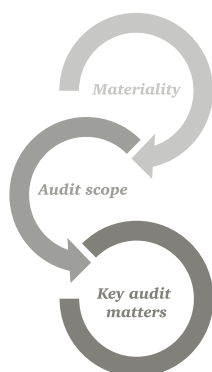
In our opinion, the consolidated financial statements (page 7 to 39) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER 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



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Overall Group materiality: CHF 3 500 000

We concluded full scope audit work at ten Group companies in four countries.

Our audit scope addressed 84% of the sales revenue and 78% of the assets of the Group.

Additionally, either specified audit procedures or a review were concluded at a further four group companies in three countries, which addressed a further 16% of the sales revenue and 21% of the assets of the Group.

As key audit matter the following area of focus has been identified:

— Impairment of property, plant and equipment

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## 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 Group 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 3 500 000
How we determined it	5% of profit before tax and effects from provisions
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

## 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.

The audit strategy for the audit of the consolidated financial statements was determined taking into account the work performed by the Group auditor and the component auditors in the PwC network. PwC audited all of the Group's subsidiaries. Where audits were performed by component auditors, we ensured that, as Group auditor, we were sufficiently involved in the audit to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. The involvement of the Group auditor included telephone conferences with the component auditors and an investigation of the risk analysis.

## 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 of Property, Plant and Equipment

Key audit matter	How our audit addressed the key audit matter
<p>Property, plant and equipment is a significant item on the balance sheet (CHF 518 million or about 44% of total assets) of the Siegfried Group; the recoverability of these assets depends on expected future profits.</p> <p>Property, plant and equipment is tested for impairment. For this, Management has to make significant assumptions concerning future growth. If indicators of impairment are identified, the Group calculates the recoverable amount. The tests are based on estimates of future cash flows, the underlying growth rate and the applied discount rate. Hence, the results of these tests are subject to a high degree of uncertainty.</p> <p>Please refer to page 22 (Estimates, Assumptions and Accounting Judgements) and page 25 (Notes to the consolidated financial statements, 2 Property, plant and equipment) in the 2019 Annual Report.</p>	<p>We performed the following main audit procedures:</p> <ul style="list-style-type: none"><li>— We checked that the composition of the cashgenerating unit complied with the definition according to Swiss GAAP FER.</li><li>— We conducted a critical examination of Management's assumptions and assessments relating to the impairment testing of property, plant and equipment. This included analysing whether the testing was based on the current forecasts approved by the Board of Directors.</li><li>— We examined the calculations of recoverable amounts in terms of consistency and correct methodical approach and we reperformed calculations. We performed plausibility checks of the appropriateness of the estimates of expected future growth mainly by comparing them with independent market forecasts using industry-specific information.</li><li>— We performed plausibility checks of the appropriateness of the applied discount rate by assessing the cost of capital of the company.</li></ul> <p>Our audit supports the amounts recognised by Management with regard to fixed assets.</p>

### 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 either intends 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

## 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



Thomas Illi  
Audit expert  
Auditor in charge



Andreas Kägi  
Audit expert

Basel, 28 February 2020



# Financial Statement of Siegfried Holding AG

## Balance Sheet of Siegfried Holding AG

In CHF (as of December 31)	2019	2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	977 004	785 022
Securities	10 003	10 003
Other current receivables due from third parties	30 920	45 082
Other current receivables due from Group companies	3 829 915	1 406 348
Accrued income and prepaid expenses	1 661 114	3 069 778
<b>Total current assets</b>	<b>6 508 955</b>	<b>5 316 233</b>
<b>Non-current assets</b>		
Loans to Group companies	721 258 474	527 211 128
Investments	182 990 188	203 490 189
<b>Total non-current assets</b>	<b>904 248 661</b>	<b>730 701 317</b>
<b>Total assets</b>	<b>910 757 617</b>	<b>736 017 550</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Other short-term liabilities due from third parties	231 790	214 334
Other short-term liabilities due from Group companies	–	473 429
Accrued expenses and deferred income	9 029 239	4 896 501
Short-term financial liabilities due from third parties	135 000 000	–
Short-term hybrid capital	100 000 000	–
<b>Total short-term liabilities</b>	<b>244 261 029</b>	<b>5 584 264</b>
<b>Non-current liabilities</b>		
Long-term financial liabilities due from Group companies	39 135 936	–
Long-term hybrid capital	160 000 000	260 000 000
<b>Total long-term liabilities</b>	<b>199 135 936</b>	<b>260 000 000</b>
<b>Total liabilities</b>	<b>443 396 965</b>	<b>265 584 264</b>
<b>Shareholders' equity</b>		
Share capital	116 262 000	8 513 498
Legal reserves	2 800 000	2 800 000
Reserves from capital contribution	8 516 576	108 882 927
Voluntary reserves	406 376 086	396 939 699
Treasury shares	–77 005 633	–56 139 225
Statutory retained earnings	10 411 623	9 436 387
<b>Total shareholders' equity</b>	<b>467 360 652</b>	<b>470 433 286</b>
<b>Total liabilities and shareholders' equity</b>	<b>910 757 617</b>	<b>736 017 550</b>

# Income Statement of Siegfried Holding AG

In CHF	2019	2018
<b>Income</b>		
Financial income	32 702 806	22 387 003
Service income	872 593	1 129 594
<b>Total income</b>	<b>33 575 399</b>	<b>23 516 597</b>
<b>Expenses</b>		
Personnel expense	1 963 435	108 582
Administrative expense	3 820 921	3 232 227
Financial expense	16 957 580	9 709 739
Taxes	421 839	1 029 662
<b>Total expenses</b>	<b>23 163 776</b>	<b>14 080 210</b>
<b>Net profit</b>	<b>10 411 623</b>	<b>9 436 387</b>

## 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).

The number of full-time equivalent employees is less than ten.

#### Guarantees and Securities

As security for the liabilities in connection with the syndicated loan there is a corporate guarantee in the amount of CHF 148.5 million (2018: CHF 121.0 million). At December 31, 2019, guarantees had been given by Siegfried Holding AG in favor of banks in the amount of CHF 5.0 million and EUR 4.0 million (2018: CHF 5.0 million, EUR 2.75 million and USD 50.0 million).

# Balance Sheet

## Investments

As of December 31, 2019, Siegfried Holding AG held the following direct or significant indirect investments:

Group companies	in LC	Participation	Share capital 2019	Share capital 2018
<b>Operating</b>				
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	422 296 722
Siegfried AG, Zofingen (Switzerland)	CHF	100.00%	20 000 000	20 000 000
Siegfried Evionnaz SA, Evionnaz (Switzerland)	CHF	100.00%	1 000 000	1 000 000
Siegfried Hameln GmbH, Hameln (Germany)	EUR	100.00%	750 000	750 000
Siegfried Malta Ltd, Valletta (Malta)	EUR	100.00%	100 000	100 000
Siegfried Pharma AG, Zofingen (Switzerland)	CHF	100.00%	1 000 000	1 000 000
Siegfried 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
Siegfried USA, LLC, Pennsville (USA)	USD	100.00%	500 000	500 000
<b>Finance and administration</b>				
Siegfried Deutschland Holding GmbH, Hameln (Germany)	EUR	100.00%	1 790 000	1 790 000
Siegfried Deutschland Real Estate GmbH, Hameln (Germany)	EUR	100.00%	25 000	25 000
Siegfried Finance AG, Zofingen (Switzerland)	CHF	0.00%	–	14 000 000
Siegfried GmbH, Hameln (Germany)	EUR	100.00%	25 000	25 000
Siegfried Hameln Real Estate GmbH + Co. KG, Hameln (Germany)	EUR	100.00%	25 000	25 000
Siegfried Hameln Services GmbH, Hameln (Germany)	EUR	100.00%	30 000	30 000
Siegfried Hong Kong Ltd, Hong Kong (China)	HKD	100.00%	1 000	1 000
Siegfried USA Holding Inc., Pennsville (USA)	USD	100.00%	3 000	3 000
<b>Joint venture</b>				
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	CNY	49.00%	10 542 708	10 542 708

As of October 1, 2019 Siegfried Finance AG was merged into Siegfried Holding AG.

## Non-Current Assets

Investments in subsidiaries and affiliates include those companies in which Siegfried Holding AG has an direct interest of more than 20%. The investments are valued at acquisition cost less valuation allowances.

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 2019 by CHF 194.0 million.

## Current Assets

Cash and cash equivalents 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.

## Shareholder's Equity

The share capital of Siegfried Holding AG increased from CHF 8.51 million to CHF 116.26 million as a result of the issue of shares under employee benefit programmes and the increase of nominal value by conversion of reserves from capital contribution. It is divided into 4 306 000 registered shares each with a par value of CHF 27 (2018: 4 256 749 registered shares with a par value of CHF 2). The legal reserves left unchanged by CHF 2.8 million. The reserve from capital contribution decreased net CHF 100.4 million to CHF 8.5 million (2018: CHF 103.3 million), influenced by CHF 10.8 million paid distribution from reserve from capital contribution in 2019, CHF 17.9 million capital increase of conditional capital and CHF 107.5 million decrease by conversion into nominal amount. 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 to CHF 5 643 000 for 209 000 shares (2018: CHF 206 502 for 103 251 shares), after the creation of 49 251 shares and the increase according to the resolution of the annual general meeting 2019.

## Treasury Shares

In the reporting year Siegfried Holding AG has made purchases and sales of Siegfried shares. On balance Siegfried held 199 586 shares at year end which is an increase by 60 374 shares during 2019 (2018: increase by 70 621 shares). The shares are valued at the average rate.

CHF	Number of shares	Average prices
<b>At January 1, 2018</b>	<b>68 591</b>	<b>314.9</b>
Purchases 2018	259 534	393.1
Sales 2018	-188 913	384.3
<b>At December 31, 2018</b>	<b>139 212</b>	<b>403.3</b>
Purchases 2019	116 799	368.2
Sales 2019	-56 425	356.0
<b>At December 31, 2019</b>	<b>199 586</b>	<b>385.8</b>

## Liabilities

There is a syndicated credit agreement in the amount of CHF 200 million available for working capital financing. Additionally the syndicated credit agreement includes 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, 2019, the syndicated loan was drawn in the equivalent of CHF 135.0 million (2018: CHF 110.0 million), which is actually disclosed in Siegfried Holding AG after the merger with Siegfried Finance AG.

The two public hybrid bonds issued by Siegfried Holding AG are subordinated loans with an indefinite maturity and interest payments by coupon. The hybrid bonds have a first call date after five years. If it is not exercised, the interest payable is increased (step up). The Hybrid bond 2015 is disclosed as short term liability.

	Issue date	Nominal value	Interest	Call date
Hybrid bond 2015	26.10.2015	100 000	3.500%	26.10.2020
Hybrid bond 2016	26.10.2016	160 000	2.125%	26.10.2021

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, 2019, 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 2019, 2 816 shares with a value of CHF 1.1 million were distributed to the members of the Board of Directors. On December 31, 2019, the non-executive members of the Board of Directors and persons closely related to them owned 124 948 (2018: 34 257) registered shares of Siegfried Holding AG. This represents 2.9% (2018: 0.8%) 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 60 763 (2018: 143 940) registered shares, i.e. 1.4% (2018: 3.4%) of the share capital of Siegfried Holding AG.

December 31, 2019			
	Function	Number of shares	of which blocked
<b>Board of Directors</b>			
Andreas Casutt	Chairman	19 000	2 298
Rudolf Hanko	Vice-Chairman	88 669	352
Martin Schmid	Member	1 649	1 149
Colin Bond	Member	3 149	1 149
Wolfram Carius	Member	2 649	1 149
Reto Garzetti	Member	8 183	1 149
Ulla Schmidt	Member	1 649	1 149
<b>Executive Management</b>			
Wolfgang Wienand	CEO	16 627	–
Reto Suter	CFO	4 000	3 500
René Imwinkelried	Global Head Technical Operations	9 852	–
Arnoud Middel	Global Head HR	4 500	–
Marianne Späne	Global Head BD & Sales	25 644	–
Jürgen Roos	Chief Scientific Officer	140	–

December 31, 2018			
	Function	Number of shares	of which blocked
<b>Board of Directors</b>			
Andreas Casutt	Chairman	18 738	2 594
Martin Schmid	Vice-Chairman	1 297	1 297
Colin Bond	Member	2 797	1 297
Wolfram Carius	Member	2 297	1 297
Reto Garzetti	Member	7 831	1 297
Ulla Schmidt	Member	1 297	1 297
<b>Executive Management</b>			
Rudolf Hanko	CEO	86 080	–
Reto Suter	CFO	4 000	3 500
René Imwinkelried	Head Technical Operations and R&D	12 095	–
Arnoud Middel	Global Head HR	5 026	–
Marianne Späne	Global Head BD & Sales	22 531	–
Wolfgang Wienand	Head Strategy and M&A, Legal	14 208	–

## Major Shareholders

In relation to the number of shares existing at year end of 4 306 000 (2018: 4 256 749), the following shareholders holds according to own statements of their numbers of shares more than 3.0% shares of Siegfried Holding AG.

- René Braginsky, Susanne Braginsky, David Braginsky, Zurich, Switzerland/  
Tel Aviv, Israel, hold 3.0% (2018: 3.0%).
- Credit Suisse Funds AG, Zurich, Switzerland, holds 3.0% (2018: 3.0%).
- Dimensional Holdings Inc, Wilmington, USA, holds 3.0% (2018: 3.0%).
- Siegfried Holding AG, Zofingen, Switzerland, holds 4.6% (2018: 3.3%).
- Norges Bank (the Central Bank of Norway), Oslo, Norwegen, holds <3.0% (2018: 3.1%).

## Net dissolution of hidden reserves

In the reporting period hidden reserves in the net amount of CHF 2 662 000 have been dissolved, in 2018 there was as a dissolution of CHF 1 065 000.

## Post Balance Sheet Events

No material events after the reporting period.

# Proposal of the Board of Directors to the Annual General Meeting of April 17, 2020, regarding Appropriation of the Retained Earnings and the Repayment of Par Value from Share Capital

In CHF	2019
Balance brought forward	–
Profit for the year	10 411 623
Statutory retained earnings	10 411 623
Appropriation of retained earnings to legal reserves	–520 000
Appropriation of retained earnings to voluntary reserves	–9 891 623
<b>Balance to be carried forward</b>	<b>–</b>

At the Annual General Meeting on April 17, 2020, the Board of Directors will propose to reduce the par value from CHF 27.00 per share by CHF 2.80 to CHF 24.20 per share and to distribute the amount of the par value reduction of CHF 2.80 per share instead of a dividend.

The repayment of the par value reduction is expected to take place in early July 2020 in accordance with capital reduction procedure in Switzerland under Swiss law.

# 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 31 December 2019, income statement, cash flow statement and notes for the year then ended, including a summary of significant accounting policies.

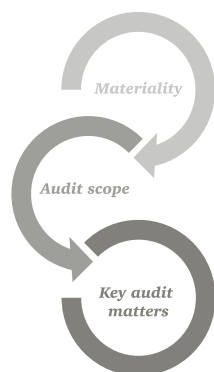
In our opinion, the financial statements (pages 44 to 51) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

### 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



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Overall materiality: CHF 3 500 000

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 key audit matter the following area of focus has been 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 3 500 000
How we determined it	0.4% 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.

## 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
<p>Siegfried Holding AG holds investments in the companies listed in the notes to the financial statements.</p> <p>The investments are tested for impairment. For this, Management has to make assumptions concerning future growth. If indicators of impairment are identified, Management calculates the value of the Group company concerned. The tests are based on estimates of future cash flows, the underlying growth rate and the applied discount rates. Hence, the results of these tests are subject to a high degree of uncertainty.</p> <p>Please refer to page 46 of the notes to the financial statements for information on the accounting policies and the list of investments in Group companies.</p>	<p>We performed the following main audit procedures:</p> <ul style="list-style-type: none"><li>— We conducted a critical examination of Management's assumptions and assessments relating to the impairment testing of investments in Group companies. This included analysing whether the testing was based on the current forecasts approved by the Board of Directors.</li><li>— We examined the calculations of company values in terms of consistency and correct methodical approach, and we reperformed calculations. We performed plausibility checks of the appropriateness of the estimates of expected future growth mainly by comparing them with independent market forecasts using industry-specific information.</li><li>— We performed plausibility checks of the appropriateness of the applied discount rate by assessing the cost of capital of the company.</li></ul> <p>Our audit supports the amounts recognised by Management with regard to investments in Group companies.</p>

## 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 either intends 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.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTSuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

## 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 complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Illi  
Audit expert  
Auditor in charge



Andreas Kägi  
Audit expert

Basel, 28 February 2020



# Information for Investors

## Key Figures Overview 2015–2019

### Consolidated Figures

		2019	2018	2017 <sup>1</sup>	2016 <sup>2</sup>	2015 <sup>2</sup>
Net sales	CHF million	833.5	794.3	750.5	717.7	480.6
Growth in CHF	in %	4.9	5.8	4.6	49.3	52.4
Growth in LC	in %	6.9	4.4	3.8	47.3	57.9
Core EBITDA	CHF million	140.7	126.5	111.3	104.2	80.1
Growth	in %	11.3	13.6	6.8	30.1	36.2
Core EBITDA margin	in %	16.9	15.9	14.8	14.5	16.7
Core operating profit (EBIT)	CHF million	89.2	76.9	61.9	54.2	46.4
Growth	in %	16.0	24.2	14.2	16.8	36.5
Core operating margin	in %	10.7	9.7	8.2	7.6	9.7
Core net profit	CHF million	65.7	55.4	40.8	33.4	34.1
Core net profit margin	in %	7.9	7.0	5.4	4.7	7.1
Net net debt	CHF million	109.6	70.1	65.9	59.5	177.3
Net debt / core EBITDA		-0.8	-0.6	-0.6	-0.6	-2.2
Net Working Capital <sup>3</sup>	CHF million	419.7	373.0	365.1	342.3	314.2
As % of net sales		50.4	47.0	48.6	47.7	40.5
Total assets	CHF million	1 168.7	1 103.1	1 071.0	1 021.4	1 003.9
Equity	CHF million	691.7	678.8	667.8	660.7	492.7
Equity ratio	in %	59.2	61.5	62.4	64.7	49.1
Average capital employed <sup>4</sup>	CHF million	895.9	880.5	833.9	818.0	562.0
Return on capital employed (average) ROCE <sup>5</sup>	in %	15.7	14.4	13.3	12.7	14.3
Cash flow from operating activities	CHF million	65.6	106.0	84.6	57.1	23.1
As % of net sales		7.9	13.3	11.3	8.0	4.8
Free cash flow	CHF million	3.8	46.0	32.3	-11.1	-66.3
Investments in PPE and intangible assets	CHF million	61.9	60.1	52.8	68.4	95.0
As % of net sales		7.4	7.6	7.0	9.5	19.8
Employees (number of FTEs) <sup>6</sup>	Number	2 407	2 294	2 260	2 315	2 238

<sup>1</sup> Restatement – Employee benefits.

<sup>2</sup> Results before special charges as core results.

<sup>3</sup> Calculation of Net Working Capital: Trade Receivables + inventories – Trade Payables – Customer Prepayments.

<sup>4</sup> Calculation of Capital Employed over twelve months: PPE + Intangible Assets + Net Working Capital.

<sup>5</sup> Calculation ROCE: Core EBITDA in relation to average capital employed over twelve months.

<sup>6</sup> Year-end values.



## Core Results

Siegfried believes that the disclosure of core results enables financial markets a better understanding of the company and allows a better comparison over the years.

The core results do exclude extraordinary expenses and income. Siegfried uses the core results in addition to Swiss GAAP FER as important indicators for the internal assessment of the performance of the Group.

Siegfried defines the effects of changes in the interest rate of foreign pension plans (discount rate for actuarial reports), restructuring, transaction and integration costs as well as impairments on non-financial and intangible assets as extraordinary expenses and income. Such effects can vary significantly from year to year and distort the presentation of results.

The current interest on foreign pension liabilities is reclassified in the core results and not shown in personnel expenses but outside the operating result in financial expenses.

Due to the recent tax reform in Switzerland, Siegfried Holding AG has used the transitional measure of the step up (existing law). The trademark rights were capitalized in the tax balance sheet. This leads to a deferred tax asset under Swiss GAAP FER. The revaluation will be depreciated over the next 5 years, so that the deferred tax assets will be reduced again. This effect from the step up is shown separately as a core adjustment in the income taxes.

Any other possible extraordinary effects are shown in the category "other" and explained separately.

## Reconciliation 2019 Results Swiss GAAP FER to core

In 1000 CHF (as of December 31)	Swiss GAAP FER	Interest effect on pension liabilities	Restructuring	Transaction and integra- tion costs	Impairments	Step up	Others	Core
Net sales	833 514	–				–		833 514
Cost of goods sold	–660 791	–				–		–660 791
<b>Gross profit</b>	<b>172 723</b>	–				–		<b>172 723</b>
Marketing and sales costs	–16 644	–				–		–16 644
Research and development costs	–33 297	–				–		–33 297
<b>Administration and general overhead costs</b>	<b>–70 216</b>	<b>32 106</b>				–		<b>–38 110</b>
Discount rate change on foreign pension liabilities	–	30 079				–		–
Current net interest on foreign pension liabilities	–	2 027				–		–
Other operating income	4 504	–				–		4 504
Income of associated companies	–27	–				–		–27
<b>Operating result (EBIT)</b>	<b>57 042</b>	<b>32 106</b>				–		<b>89 149</b>
<b>Financial result</b>	<b>–5 609</b>	<b>–2 027</b>				–		<b>–7 636</b>
<b>Profit before income taxes</b>	<b>51 433</b>	<b>30 079</b>				–		<b>81 513</b>
<b>Income taxes</b>	<b>1 713</b>	<b>–9 020</b>				<b>–8 513</b>		<b>–15 819</b>
<b>Net profit</b>	<b>53 147</b>	<b>21 059</b>				<b>–8 513</b>		<b>65 694</b>
<b>EBITDA</b>	<b>108 600</b>	<b>32 106</b>				–		<b>140 706</b>

### Interest effect on pension liabilities

According to Swiss GAAP FER, the effects of interest on pension liabilities are to be reported as non-cash personnel expenses. The effects of changes in interest rates (discount rate) are neutralized for the core results. The reduction in the discount rate of 100 basis points for the interest on pension liabilities in Siegfried PharmaChemikalien Minden GmbH, Germany, accounts for the majority of the approximately CHF 30.1 million core adjustment.

The current net interest on pension liabilities in the amount of CHF 2.0 million is reclassified from personnel expenses to financial expenses for the core results. Deferred taxes must be corrected accordingly by CHF 9.0 million in order to present the core net profit.

### TRAF 17

In connection with the recent tax reform and the abandonment of the tax privileged status of Siegfried Holding AG, the trademark rights are capitalized in the Step up (existing law) in the tax balance sheet. The deferred tax asset booked under Swiss GAAP FER is not included in the core result.

## Reconciliation 2018 Results Swiss GAAP FER to core

In 1000 CHF (as of December 31)	Swiss GAAP FER	Interest effect on pension liabilities	Restructuring	Transaction and integra- tion costs	Impairments	Step up	Others	Core
Net sales	794 297	–	–	–	–	–	–	794 297
Cost of goods sold	–637 768	–	–	–	–	–	–	–637 768
<b>Gross profit</b>	<b>156 528</b>	–	–	–	–	–	–	<b>156 528</b>
Marketing and sales costs	–16 122	–	–	–	–	–	–	–16 122
Research and development costs	–27 471	–	–	–	–	–	–	–27 471
<b>Administration and general overhead costs</b>	<b>–43 350</b>	<b>–931</b>	<b>1 508</b>	–	–	–	–	<b>–42 773</b>
Discount rate change on foreign pension liabilities	–	–2 947	–	–	–	–	–	–
Current net interest on foreign pension liabilities	–	2 016	–	–	–	–	–	–
Other operating income	6 733	–	–	–	–	–	–	6 733
Income of associated companies	–38	–	–	–	–	–	–	–38
<b>Operating result (EBIT)</b>	<b>76 280</b>	<b>–931</b>	<b>1 508</b>	–	–	–	–	<b>76 857</b>
<b>Financial result</b>	<b>–6 116</b>	<b>–2 016</b>	–	–	–	–	–	<b>–8 132</b>
<b>Profit before income taxes</b>	<b>70 164</b>	<b>–2 947</b>	<b>1 508</b>	–	–	–	–	<b>68 725</b>
<b>Income taxes</b>	<b>–13 854</b>	<b>884</b>	<b>–324</b>	–	–	–	–	<b>–13 294</b>
<b>Net profit</b>	<b>56 310</b>	<b>–2 063</b>	<b>1 184</b>	–	–	–	–	<b>55 431</b>
<b>EBITDA</b>	<b>125 887</b>	<b>–931</b>	<b>1 508</b>	–	–	–	–	<b>126 464</b>

### Interest effect on pension liabilities

According to Swiss GAAP FER, the effects of interest on pension liabilities are to be reported as non-cash personnel expenses. The effects of changes in interest rates (discount rate) are neutralized for the core results. The increase in the discount rate of 10 basis points for the interest on pension liabilities in Siegfried PharmaChemikalien Minden GmbH, Germany, accounts for the majority of the approximately CHF 2.9 million core adjustment.

The current net interest on pension liabilities in the amount of CHF 2.0 million is reclassified from personnel expenses to financial expenses for the core results. Deferred taxes must be corrected accordingly by CHF 0.9 million in order to present the core net profit.

### Restructuring

The costs were incurred as part of the restructuring of Siegfried Evionnaz AG.

## Stock Market Data

			2019	2018	2017	2016	2015
Registered shares nom. CHF 27 <sup>2</sup>			4 306 000	4 256 748	4 210 915	4 166 591	4 150 000
Share capital	CHF million		116.3	8.5	8.3	8.3	8.3
Distribution per registered share <sup>2</sup>	CHF		2.80	2.60	2.40	2.00	1.80
Total distribution <sup>2</sup>	CHF		12 056 800 <sup>1</sup>	10 686 699	9 942 072	7 759 840	6 997 641
Market prices registered share	high	CHF	469.0	469.5	327.0	216.9	206.2
	low	CHF	321.5	304.0	213.3	165.7	139.5
	31/12	CHF	469.0	336.0	324.0	213.0	195.7
Distribution yield per registered share		%	0.6	0.7	0.7	0.9	0.9
Non-diluted core earnings per share (CHF) <sup>3,7</sup>		CHF	15.88	12.81	10.28	7.18	9.89
Diluted core earnings per share (CHF) <sup>4,7</sup>		CHF	15.48	12.49	9.97	7.04	9.76
Consolidated operating cash flow per registered share <sup>3</sup>		CHF	15.1	25.4	21.3	14.7	5.8
Consolidated equity and reserves per registered share <sup>3</sup>		CHF	160.6	162.7	169.3	170.0	124.6
P/E ratio (year-end) <sup>5</sup>			30	27	32	30	20
Market capitalization at year-end <sup>6</sup>		CHF million	1 926	1 363	1 342	826	769

<sup>1</sup> In accordance with the profit appropriation proposal 2019.

<sup>2</sup> Increase of par value from CHF 2 to CHF 27 in 2019, repayment of par value in accordance with the profit appropriation proposal 2019, until 2018 there was a distribution from CCR.

<sup>3</sup> Calculated on the basis of year-end share price and diluted EPS.

<sup>4</sup> Calculated on the weighted average number of shares outstanding, deducting treasury shares.

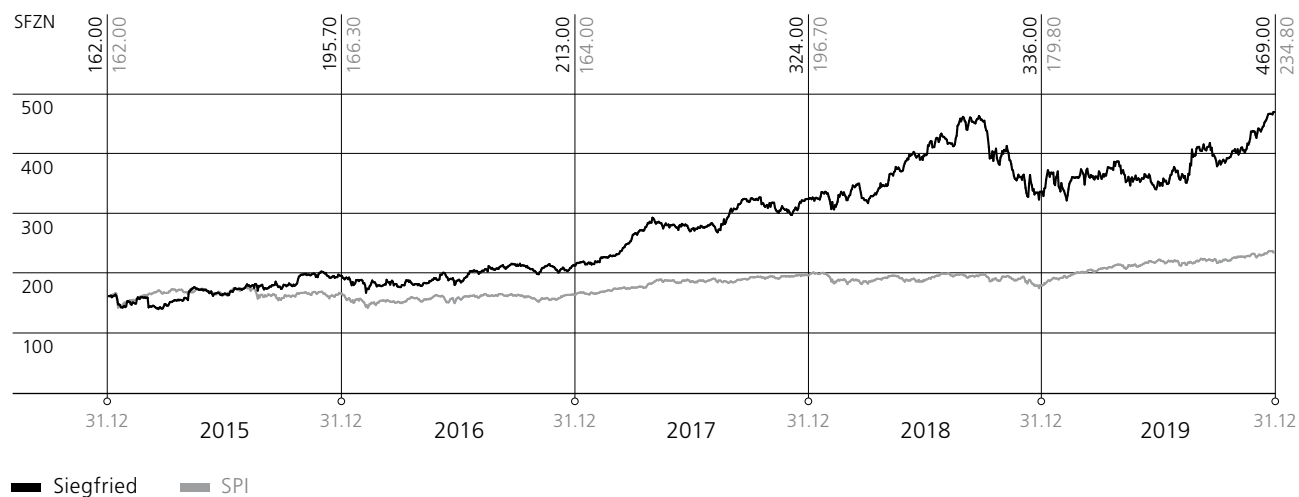
<sup>5</sup> Adjustment for assumed exercise of share-based payments, where dilutive.

<sup>6</sup> Calculated on the number of listed shares, net of treasury shares.

<sup>7</sup> Core EPS for 2019 and 2018, prior years not adjusted.

## Share Price Development

from January 1, 2015, to December 31, 2019



## Shareholder Base

As of December 31, 2019, 4 966 shareholders were registered in the share registry of Siegfried Holding AG, representing a shareholding of 61.28.% of the total share capital.

The distribution of the shares among the shareholders was as follows:

Number of shareholders at December 31, 2019	Shareholders	Shares	%
1–10	582	3 811	0.09
11–100	2 930	144 956	3.37
101–1000	1 225	357 095	8.29
1001–10 000	191	575 891	13.37
10 001–100 000	32	630 494	14.64
100 001–1 000 000	6	926 644	21.52
	4 966	2 638 891	61.28
Treasury shares and non-registered shares	n.a.	1 667 109	38.72
<b>Total shares</b>		<b>4 306 000</b>	<b>100.00</b>

Shareholdings by segment as of December 31, 2019, was as follows:

Holdings by segment as of December 31, 2019	Shareholders	No. of shares per category	%
Significant shareholders (>3%)	4	573 688	13.32
Individuals	4 575	826 161	19.19
Institutional investors	387	1 239 042	28.77
Own shares and non-registered shares	–	1 667 109	38.72
<b>Total shares</b>	<b>4 966</b>	<b>4 306 000</b>	<b>100.00</b>

<sup>1</sup> According to SIX disclosure notifications; excluding own shares.

## 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 forward looking 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 2019 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Siegfried.

## 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 progress made during the course of the year. The report appears in both English and German language.

### Scope

We report on the financial year ending 31 December 2019. The future-oriented topics dealt with in the report represent an exception. Siegfried’s Annual Report appears annually and was last published in March 2019, both in a printed version and as PDF on our corporate website. The next report will come out in the spring of 2021.

### 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 (tables with remark “Audited”) for the financial year ending 31 December 2019 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 process of sustainability reporting was supported by BSD Consulting, a consulting company specialized in the management of sustainability issues.

### Sustainability Report in Accordance with GRI Standards

This report has been prepared in accordance with the GRI Standards: core option. Furthermore, for the present annual report, the GRI Materiality Disclosures Service was carried out and the accuracy of the GRI references 102–40 to 102–49 confirmed. Please refer to the detailed GRI content index on the Internet at [report.siegfried.ch](http://report.siegfried.ch).

## Publications

The Siegfried Group is committed to an open and consistent information policy. The media, financial analysts and other interest groups are continuously informed about important developments and events. Shareholders are informed semi-annually on the state of the business and receive the annual report and the semi-annual report upon request.

The annual report, minutes of the previous General Meeting, media releases, important information and the current share price can be found at [www.siegfried.ch](http://www.siegfried.ch).

A news conference is held annually for the media and financial analysts.

## Calendar

In 2020, the company will inform about

### **March 4, 2020**

Publication of results for the 2019 business year at a media and analyst conference in Zurich

### **April 17, 2020**

Annual General Meeting of Shareholders  
10 a.m., Stadtsaal Zofingen

### **August 20, 2020**

Publication of 2020 half-year financial results

## Publisher's Note

This Annual Report is also available in German, being the original version.

### **Editor**

Peter A. Gehler, Christa Brügger, Nathalie Häfliger

### **Concept, layout, realization**

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### **Fotografie**

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Siegfried Holding AG  
Untere Bruehlstrasse 4  
CH-4800 Zofingen  
Switzerland  
Phone + 41 62 746 11 11  
Telefax + 41 62 746 12 02  
[www.siegfried.ch](http://www.siegfried.ch)



The Siegfried Group is a leading supplier in the global CDMO market with production facilities in Switzerland, the USA, Malta, China, Germany, and France. Siegfried employs a workforce of around 2500 employees at nine sites in six countries. Siegfried Holding AG is headquartered in Zofingen (Switzerland) and is listed on the Swiss Exchange (SIX:SFZN).

**expect  
more**

Siegfried Holding AG  
Untere Bruehlstrasse 4  
CH-4800 Zofingen  
[www.siegfried.ch](http://www.siegfried.ch)