Annual Report 2017

Siegfried

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Globally Positioned Focused Profitable

Page 2 – 3, Progress Report:
"The fact that the Siegfried Group is showing robust and rapid growth based on several acquisitions is due, to a large degree, to the enthusiasm and loyalty shown by our workforce."
— Dr. Andreas Casutt Chairman of the Board of Directors

Page 13, Interview "Evolve" Strategy:
"Siegfried will remain attractive for our shareholders because we are creating value with sound results and do not shy away from making big acquisitions as they come up." — Dr. Rudolf Hanko Chief Executive Officer

Net Sales	EBITDA	Net Profit
750.5	114.0	39.7
million Swiss francs	million Swiss francs	million Swiss francs
The change compared to 2016 was +4.6%.	The change compared to 2016 was +17.8%.	The change compared to 2016 was +42.4%.

"We will do everything in our power to ensure that the company remains on its successful course."


Dr. Andreas Casutt
Chairman of the Board of Directors


Dr. Rudolf Hanko
Chief Executive Officer

Dear Shareholders

For the 2017 financial year, the Siegfried Group again reported a very sound result. Sales amounted to 750.5 million Swiss francs, corresponding to a growth of 4.6%. Following years of significant acquisitions, Siegfried achieved robust organic growth. Earnings before interest, taxes and amortization (EBITDA) grew significantly by 17.8% to 114.0 million francs, corresponding to an EBITDA margin of 15.2%. The margin is within the targeted range of 15–20%. Siegfried achieved net profit of 39.7 million francs, which is clearly above that reported the previous year (27.9 million francs), representing a growth of 42.4%.

Based on the gratifying annual result, the Board of Directors will recommend to the Annual General Meeting a higher distribution to shareholders of 2.40 francs per share from the capital contribution reserves (previous year: 2 francs).

Siegfried reports operating cash flow for 2017 after change in net current assets of CHF 84.4 million (2016: CHF 57.1 million). This corresponds to a significant increase of 47.8%. Investments in tangible and intangible fixed assets were lower than for the previous year and amounted to CHF 52.8 million (2016: CHF 68.4 million). Following heavy investments in previous years, investment activity in 2017 has returned to normal.

In the past three years, with three acquisitions, the Siegfried Group achieved the critical size required in the pharmaceutical supplier industry. At the same time, the company completed its entrance into sterile filling and significantly increased the competitiveness of its production network thanks to the new production plant in Nantong (China). Siegfried's production network today comprises nine sites, of which six are active in the area of drug substance and three in drug product. By means of the "Evolve" strategy, the Siegfried Group is sharpening its strategic orientation and giving it a concrete form in order to launch the next chapter in the company's development.

Given the ongoing consolidation in the CDMO market, the supplier market to the worldwide pharmaceutical industry, critical size will remain a major topic. Consequently, in addition to continuous organic growth, Siegfried is actively evaluating potential acquisitions to meet the demands of customers. Such acquisitions may concern the production of either drug substances or drug products. However, Siegfried in particular aims to further strengthen its business with drug products, especially in the field of complex solid dosage forms. Our goal is to be able to offer our customers both competencies – chemical and pharmaceutical – from a single source. In addition, the "Evolve" strategy strengthens the continued technological expansion of the nine sites worldwide. A significant milestone has been achieved in the year under review by means of developing and expanding capabilities in sterile filling of biologically produced drug substances and the corresponding investments in Irvine and Hameln. The close cooperation with Symphogen, a Danish biotechnology company, represents an initial success in this market segment.

> "Given the ongoing consolidation in the CDMO market, the supplier market to the worldwide pharmaceutical industry, critical size will remain a major topic."

Siegfried predominantly produces and sells active pharmaceutical ingredients (APIs) and the corresponding intermediates in the area of drug substances. A quarter of sales is achieved with demanding finished products (drug products). In the year under review, both areas contributed equally toward growth.

Sales in the field of exclusive synthesis were reported slightly above the previous year's level. The close cooperation between customer and outsourcing partner, essential in this business, was further intensified. Correspondingly, today Siegfried is involved directly in the development of numerous new customer projects. Among others, this includes a significant supplier contract spread across several years with the US pharmaceutical company Keryx.

In 2017, our business with portfolio products, which are delivered to various customers, performed well. Sales of drug substances used in addiction treatment, especially, have shown vigorous growth.

In the year under review, the business with finished products – which at Siegfried includes sterile filling, tablets and capsules – continued to grow. Capacity growth serving to fill biologically produced active pharmaceutical ingredients (APIs) has been vigorous. Today, this capacity is available at two sites, in Irvine and Hameln. Siegfried will in the coming years significantly strengthen its capacity to produce solid dosage forms, especially in the US market, where the company's presence today is low.

Siegfried's production network comprising nine sites on three continents represents the basis for continued organic growth. Siegfried therefore again made targeted investments in existing and new facilities. In the past two financial years, we gave priority to working intensively on streamlining our internal coordination. Our aim is to make available to our customers the technological and regulatory strengths of our individual sites connected with the highest possible level of flexibility. In this regard, close attention was paid to our site in Nantong (China), which is gaining importance in the market owing to its cost-effective structures. The site has been completely approved by the Chinese authorities and has started production. Siegfried anticipates that Nantong will be audited by the US-American regulatory authorities in the course of the current year.

In Hameln, Siegfried invested, and continues to do so, in equipment serving the biological filling of APIs which, as mentioned above, is attracting wide customer interest. Furthermore, we significantly improved the infrastructure for employees. In Zofingen, additional facilities were released in the new production building. Moreover, we installed additional peripheral equipment, which improve the performance parameters of the new building. The new logistics building is scheduled for completion in the 3rd quarter of 2018. The second stage of the new administration building was ready for occupation at the beginning of December 2017. As a result, office space can now be let to third party tenants – mainly companies represented in Pharmapark Siegfried. At the St. Vulbas site, which is located close to Lyon in France, additional investment tranches were authorized in the second half in view of a large customer contract.

Given the vigorous growth of the Siegfried Group in the past three years, management paid particular attention to implementing a coherent corporate culture comprising all sites. In this connection, a state-of-the-art Intranet was developed and introduced to meet today's requirements. In fall 2017, the Executive Committee called together some 60 senior managers from all sites for a further Leadership Convention. Strengths and weaknesses were identified in working groups and measures defined that are now being implemented step by step. It is not only a matter of dealing with weaknesses, but also of maintaining and emphasizing the strengths represented by Siegfried's management on the basis of nearly 150 years of corporate history.

As a partner of the worldwide pharmaceutical industry, Siegfried places high priority on sustainability in all areas. Consequently, sustainability represents one of the company's central corporate values. For the first time in its reporting, the Siegfried Group entirely meets the standards of the Global Reporting Initiative (GRI). This does not only enhance the company's reputation, but also draws together the manifold measures and makes them available internally and externally. A materiality analysis was implemented in a working group, which defined the nine most important issues including product safety, environmental protection, fair working conditions including health and occupational safety, legal conformity, political representation of interests and the local population at the various sites. Both the Executive Committee (ExeCom) and the Board of Directors regularly deal with issues concerning sustainability, especially the considerate handling of natural resources and corporate social responsibility. The sustainability report, which is also available online, shows a high level of awareness for such interrelationships and an advanced range of instruments.

With regard to human resources, the Siegfried Group in the year under review strengthened operating management at various levels, both at the sites and at corporate headquarters, especially in the areas of IT, development and finance. In May 2017 our new Chief Financial Officer, Dr. Reto Suter, assumed his current position.

As a service provider we have to address new challenges in a highly competitive market every day. The fact that the Siegfried Group is showing robust and rapid growth based on several acquisitions is due, to a large degree, to the enthusiasm and loyalty shown by our workforce. We would like to take this opportunity to thank our Executive Committee and all employees for the exceptional efforts made at all sites.

The Siegfried Group's shareholder base remains very stable (please also refer to the Corporate Governance Report). As reported in the media, important investors have joined Siegfried and significantly increased their shareholding. RAG-Stiftung Beteiligungsgesellschaft mbH, based in Essen (Germany), in October 2017 exercised its conversion right to a privately issued Siegfried Holding AG convertible bond amounting to CHF 60 million required to partly finance the acquisition of significant segments of BASF's pharmaceutical supply business in 2015. Consequently, RAG-Stiftung now holds more than 5% of Siegfried Holding AG's stock. The conversion did not require a capital increase as it was served by means of treasury shares. The Siegfried Group's Honorary Chairman, Dr. Bernard A. Siegfried, passed away at the end of October. He entered the service of the company in 1967 as a representative of the fourth generation of the Siegfried family. In 1977 he was appointed Delegate of the Board of Directors and Chief Executive Officer, and in 1998 he was elected Chairman of the Board with executive functions. He withdrew from his executive functions on the occasion of the 2001 Shareholders' Meeting and stepped down as Chairman of the Board in 2003. The Board of Directors subsequently appointed him Honorary Chairman of Siegfried Holding AG. He remained an ordinary member of Siegfried's Board until 2010. Numerous significant development steps were taken in his terms of office. At the start of the 1970s he achieved an opening of the company and the successive replacement of family members at the top management level. It was during this phase that Siegfried's stock was listed on the Swiss Stock Exchange. Siegfried's in-house pharmaceutical research was abandoned in the 1980s. The company was subsequently positioned as a supplier to the worldwide pharmaceutical industry, an area in which Siegfried has remained active until today. Without a doubt, Bernard A. Siegfried was a major leader in the long history of the company, and his impressive lifetime achievement will not be forgotten.

Siegfried anticipates sales to continue growing. At constant exchange rates, sales are expected to grow at a mid-single-digit percentage rate in the current financial year. The operating margin (EBITDA) is also expected to continue to improve significantly. The company confirms its expectations: sales of CHF 900 million and EBITDA margin of about 20% in the medium term. We aim to further increase the dividend payout.

In closing, we would like to express our gratefulness to you, dear shareholders, for your support and your loyalty to Siegfried. We will do everything in our power to ensure that the company remains on its successful course.

Dr. Andreas Casutt
Chairman of the
Board of Directors

Dr. Rudolf Hanko
Chief Executive Officer

"At constant exchange rates, sales are expected to grow at a mid-single-digit percentage rate in the current financial year. The operating margin (EBITDA) is also expected to continue to improve significantly."

Key Figures 2017

	2017	2016	Change CHF (LC)
Net sales (million CHF)	**750.5**	717.7	+4.6% (+3.8%)
Gross profit (million CHF)	**138.8**	109.2	27.1%
Gross profit margin (%)	18.5%	15.2%	
EBITDA (million CHF)	**114.0**	96.7	17.8%
EBITDA margin (%)	15.2%	13.5%	
EBIT (operating result) (million CHF)	**64.6**	46.7	38.2%
EBIT margin (%)	8.6%	6.5%	
Net profit (million CHF)	**39.7**	27.9	42.4%
Net profit-margin (%)	5.3%	3.9%	
Non-diluted earnings per share (CHF)	10.01	7.18	39.4%
Diluted earnings per share (CHF)	9.71	7.04	37.9%
Cash flow from operating activities (million CHF)	**84.4**	57.1	47.8%
Free cash flow (million CHF)	**32.1**	−11.1	390.0%
Investment in property, plant and equipment and intangible assets (million CHF)	52.8	68.4	−22.8%

	December 31, 2017	December 31, 2016	Change
Equity (million CHF)	**673.4**	660.7	1.9%
Total assets (million CHF)	**1 068.6**	1 021.4	4.6%
Equity ratio	63.0%	64.7%	
Employees (number of FTEs)	2 260	2 315	−2.4%

The complete financial report can be found starting from p.53
or can be downloaded at report.siegfried.ch

Facts & Figures 2017

Net sales

750.5 mio.

Net sales in 2017 reached 750.5 million Swiss francs.

Change in sales compared to the previous year

Sales grew by 4.6%.

EBITDA

EBITDA amounts to 114 million Swiss francs.

Change in EBITDA compared to the previous year

17.8%

The change compared to the previous year was +17.8%.

EBIT

64.6 mio.

The operating result (EBIT) amounts to 64.6 million Swiss francs.

Change in EBIT compared to the previous year

EBIT grew by 38.2%.

Net profit

Net profit amounts to 39.7 million Swiss francs.

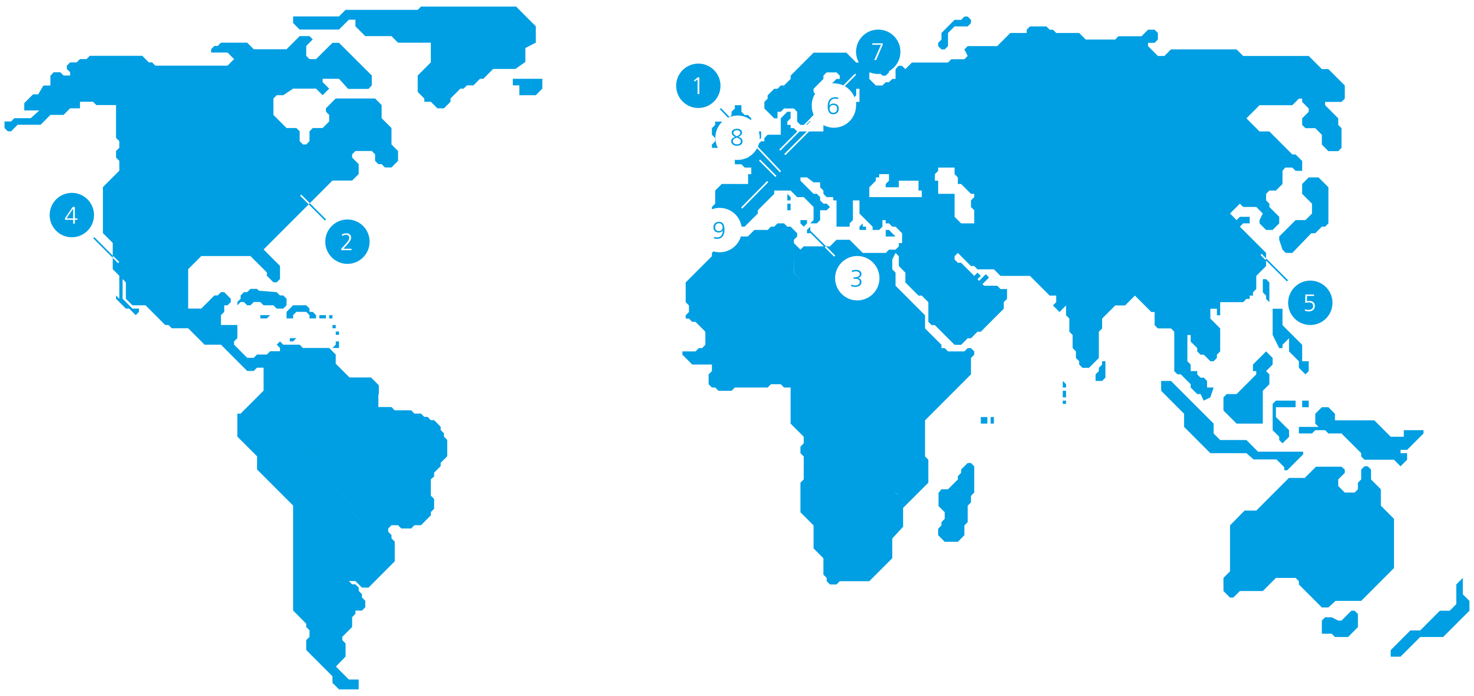
Change in net profit compared to the previous year

42.4%

The change compared to the previous year was +42.4%.

Locations

1 Zofingen
2 Pennsville
3 Hal Far
4 Irvine
5 Nantong
6 Hameln
7 Minden
8 Evionnaz
9 St. Vulbas



2331

Employees
at 9 sites
in 6 countries around the world.

Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	2	500 209	488 234
Intangible assets	3	9 425	9 048
Investments in associated companies and joint ventures	4	475	473
Financial and other non-current assets	5	3 513	3 524
Employer contribution reserves	17	9 222	9 151
Deferred tax assets	6	32 246	42 803
Total non-current assets		**555 090**	**553 233**
Current assets			
Inventories	7	248 294	243 669
Trade receivables	8	189 160	155 771
Other current assets		35 403	29 029
Accrued income and prepaid expenses		6 034	7 115
Current income taxes		192	433
Derivative financial instruments	9	296	471
Cash and cash equivalents		34 137	31 636
Total current assets		**513 516**	**468 124**
Total assets		**1 068 606**	**1 021 357**
Liabilities and equity			
Equity			
Share capital		8 422	8 333
Treasury shares		–21 601	–51 787
Capital reserves		74 193	75 699
Hybrid capital		255 985	315 985
Retained earnings		356 385	312 506
Total equity		**673 384**	**660 736**
Non-current liabilities			
Non-current financial liabilities	12	100 000	91 107
Non-current provisions	13	16 951	25 105
Deferred tax liabilities	6	6 948	4 638
Other non-current liabilities	14	1 392	1 869
Non-current pension liabilities	17	122 201	114 268
Total non-current liabilities		**247 492**	**236 987**
Current liabilities			
Trade payables		71 316	55 336
Other current liabilities	16	19 221	18 017
Accrued expenses and deferred income	15	44 874	37 638
Derivative financial instruments	9	97	385
Current pension liabilities	17	406	136
Current provisions	13	6 917	9 669
Current income tax liabilities		4 899	2 453
Total current liabilities		**147 730**	**123 634**
Total liabilities		**395 222**	**360 621**
Total liabilities and equity		**1 068 606**	**1 021 357**

* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2017	2016
Net sales	26	750 468	717 729
Cost of goods sold		–611 658	–608 509
Gross profit		**138 810**	**109 220**
Marketing and sales costs		–16 228	–16 028
Research and development costs		–25 631	–21 193
Administration and general overhead costs		–38 631	–31 488
Other operating income	19	6 264	6 239
Income of associated companies		–8	–36
Operating result		**64 576**	**46 714**
Financial income	20	35	25
Financial expenses	20	–8 208	–12 593
Exchange rate differences	20	–96	587
Profit before income taxes		**56 307**	**34 733**
Income taxes	6	–16 575	–6 827
Net profit		**39 732**	**27 906**
Non-diluted earnings per share (CHF)	21	10.01	7.18
Diluted earnings per share (CHF)	21	9.71	7.04

* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

Growth and Widening of Margins

Dr. Reto Suter
Chief Financial Officer

In the financial year 2017, Siegfried increased revenue to CHF 750.5 million (prior year CHF 717.7 million, +4.6%). The EBITDA (CHF 114.0 million), the EBIT (CHF 64.6 million) and the net profit (CHF 39.7 million) were also significantly higher than in the prior year. This sustained growth is reflected in a margin expansion at all levels: the EBITDA margin was 15.2% (prior year: 13.5%). The EBIT margin (8.6%, prior year 6.5%) and the net profit margin (5.3%, prior year 3.9%) have also improved.

Strong disproportionate growth in EBITDA

The gross profit rose by 27.1% to CHF 138.8 million. The gross profit margin increased by 3.3% to 18.5%. EBITDA of CHF 114.0 million resulted after deduction of marketing and distribution costs, research and development costs, administration costs and general expenses, representing a clearly disproportionate increase of 17.8%. In this regard it has to be acknowledged that previously certain central costs were entered as manufacturing costs, while this year they were recognized as administration costs.

Lower finance expenses, income taxes marked by external effects

The financial result of CHF –8.3 million turns out better than in the prior year (CHF –12.0 million). This is a consequence of lower financing costs of CHF 8.2 million (prior year CHF 12.6 million). Income tax is significantly marked by external effects, above all a major tax rate reduction in the USA, which on the other hand has a negative impact on results. Despite this non-recurring tax effect, the net profit is higher at CHF 39.7 million, an increase of 42.4% compared with the prior year. The undiluted earnings per share (EPS) amount to CHF 10.01, the diluted earnings per share to CHF 9.71 (prior year EPS CHF 7.18, diluted EPS CHF 7.04).

Significant increase in the operating cash flow and the free cash flow

In 2017, Siegfried generated an operating cash flow after changes in net working capital of CHF 84.4 million (prior year CHF 57.1 million). This represents a major increase of 47.8%. At the end of the year, Siegfried had more than CHF 34.1 million in cash and cash equivalents. The loans outstanding amounted to gross CHF 100.0 million. The net debt at the end of 2017 was CHF 65.9 million. At the end of the year the ratio of net debt to the EBITDA was 0.6, the equity ratio was 63.0%. Siegfried therefore has available the necessary debt capacity to finance further growth measures.

For the complete financial commentary 2017, please refer to page 53

The Year 2017 in Review

Siegfried is one of the top companies in the global CDMO market.

Share price CHF
230
220
220
215
210
205
200
195
190
185
180
175
170
165
160
155
150
Jan – March
April – June

717.7
CHF million

Announcing 2016 financial results
Sales jump: the Siegfried Group reported record-breaking sales of 717.7 million Swiss francs, or +49.3%.

Strategic cooperation with Symphogen
In May, Siegfried and the Danish biotechnology company Symphogen, a leader in cancer therapy, signed a strategic partnership concerning aseptic filling of biologics.

Go-live global Intranet
End June 2017, Siegfried launched its new global Intranet as an important instrument serving internal networking and group-wide communication. It is considered a significant element of communication supporting Siegfried's new corporate culture.

Changes in the Executive Committee
Dr. Reto Suter was appointed Chief Financial Officer of the Siegfried Group with effect from 1 May 2017. Likewise with effect from May 1, 2017, the Board of Directors has entrusted Dr. Wolfgang Wienand with the management of the Siegfried Group's global research and development activities.

60 Years Evionnaz
On 10 June 2017, the Evionnaz site celebrated its 60th anniversary.

Share price CHF
350
345
340
335
330
325
320
315
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305
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275
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255
250
245
240
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150

349.1 CHF million

Half-year results
Siegfried with higher earnings and increased margin: at stable sales, earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 20.9% to 52.9 million francs.

750.5 CHF million

Net sales,
as of 31 December 2017

RAG-Stiftung converts bond
RAG-Stiftung of Germany converted its Siegfried Holding AG hybrid convertible bond issued in 2015 to the amount of 60 million francs and now holds a 9.8% equity share in the company.

Keryx Biopharma
End of December 2017, Siegfried signed a significant supplier agreement of several years with the US pharmaceutical company Keryx.

Bernard A. Siegfried
Siegfried's long-standing executive head, who was appointed Siegfried Holding AG's honorary Chairman in 2003, passed away on 27 October 2017 at the age of 83 years following a long and serious illness.

10 Years Malta
At the end of December 2017, Siegfried's Malta site celebrated its 10th anniversary.

July – Sept

Oct – Dec

First-class in Quality, Efficiency and Flexibility

In the production of active pharmaceutical ingredients (APIs), intermediates and finished dosage forms, Siegfried counts on a global network of nine sites in six countries on three continents.

Please find detailed contact information for all sites on page 73.

1 Zofingen

Parent company: Our Swiss site in Zofingen is Siegfried's hub. The brand-new production building was designed in accordance with the state-of-the-art vertical-flow principle and supplies our global customers with proverbial Swiss quality. Siegfried is a well-respected employer in Zofingen, trains apprentices in various areas, cooperates with several universities and advanced technical colleges and, therefore, carries responsibility for future generations.

1873 543 ○△□⌧

2 Pennsville

Specialist for spray drying: The site is located in the US state of New Jersey and produces mainly active pharmaceutical ingredients for the US market, such as controlled substances meeting particular requirements set out by the regulatory authorities. Thanks to its spray drying capacity, Pennsville also supplies our customers worldwide. Siegfried's PSD4 pharmaceutic spray dryer is one of the largest in the world and operates in accordance with cGMP regulations.

2005 159 ○△⌧

3 Hal Far

Center for solid dosage forms: Hal Far in Malta is our site for the production of solid dosage forms, such as tablets and capsules for the global market. The site includes a separate production area for highly effective substances. The offer ranges from bulk product to blistered and packaged finished dosage forms.

2007 128 □

4 Irvine

Aseptic filling and packaging specialist: In Irvine, California, near Los Angeles, we fill and pack drug substances (small and large molecules) in syringes, vials and glass cartridges and dripper bottles (with cap closures and tips). From this site we serve not only American but also international customers and support customers at the early stages of clinical development.

2012 112 ☆

5 Nantong

Our foothold in Asia: Erected in 2013 and put into operation in 2016, the site is our cGMP production site in China supplying all western countries as well as China. The offer comprises research & development, pilot plant, clinical tests and commercial production of active pharmaceutical ingredients. Nantong's cost-effective production environment improves our competitiveness in the global market.

2013 204 ○△

6 Hameln

Driver of future technologies: Our plant in Hameln specializes in sterile filling of vials, ampoules and pre-filled syringes. Moreover, Hameln's business activity now includes aseptic filling of biologics. The Hameln site corresponds to an investment in an attractive market with potential for growth. Technology transfers represent a part of the offer. Furthermore, Hameln provides contract development for finished dosage forms and regulatory services for injectable and topical applications.

2014 441 ☆

7 Minden

Partner for high throughputs: In Minden, Siegfried commands a high know-how in the production of various active pharmaceutical ingredients. World-scale and modern multi-purpose plants for high throughputs allow for flexible production structures. Minden specializes in controlled substances and is active in exclusive synthesis. All processes comply with cGMP guidelines.

2015 336 ○△⌧

8 Evionnaz

Intermediates and active pharmaceutical ingredients: The site in Evionnaz (Switzerland) is our production site for chemical development and production offering our customers intermediates and active pharmaceutical ingredients from only a few grams to several tons. Evionnaz is active mainly in exclusive synthesis of patent-protected active pharmaceutical ingredients and intermediates.

2015 298 ○△

9 St. Vulbas

State-of-the-art plant for active pharmaceutical ingredients: The Siegfried site located in St. Vulbas in France produces a wide range of cryogenic and phosgenic reactions and produces various active pharmaceutical ingredients in a modern production facility. The site cooperates closely with the plant in Evionnaz.

2015 110 ○△

Caption

Employees

With Siegfried since

Competencies
○ Active pharmaceutical ingredients (APIs)
△ Intermediates
⌧ Controlled substances
□ Oral dosage forms
☆ Sterile filling

A Holistic Understanding of Healing and Prevention

Siegfried, a worldwide leading CDMO, produces active pharmaceutical ingredients (APIs), intermediates and finished products from a single source. Our core competence is process development and the integration of complementary chemical and pharmaceutical capabilities in a single business model.

As a globally active manufacturer of high-quality APIs and finished dosage forms, we contribute toward a better life for people. Siegfried has delivered quality products for almost 150 years. Thanks to our unique competence as a fully integrated supplier, many years of process and compliance know-how, and our presence in Europe, Asia and North America, we offer our customers the highest level of quality, efficiency and flexibility.

Active pharmaceutical ingredients (APIs): the key to healing
It is essential that an active pharmaceutical ingredient is transported to exactly the right location in the body. In its treatment, the medication must influence the point of application in such a way that the symptoms recede or can be relieved. Siegfried's chemical expertise consists of process development and production of such APIs and/or their intermediates. Our global production network in this segment comprises sites in North America, Europe and Asia. Our customers therefore benefit from measurable synergies and flexible solutions oriented toward their concrete needs.

Medication delivers the API to the body
A medication in a certain dosage serves to heal, alleviate or prevent an illness. Since time immemorial, certain plants, extracts of plants and substances of animal origin have served as medications, which today have been superseded mainly by synthetic compounds and biologics. Siegfried offers a wide range of services in the development and production of complex oral and sterile finished dosage forms. For Siegfried, the segment of sterile and aseptic filling, including that of biologically produced substances is especially attractive. Siegfried produces finished dosage forms for its worldwide customers in Europe and North America.

What is a CDMO?

A CDMO (Contract Development and Manufacturing Organization) is a company that offers both process development (contract development) and manufacturing services. Comprehensive services range from early-stage Research & Development services such as synthesis, scale-up, formulation development, stability studies and method development all the way through to manufacturing services, ranging from preclinical R&D material for clinical trial purposes and commercial production (Phases I–IV).

Products

APIs and Intermediates

Active pharmaceutical ingredients (APIs) are used in the production of a medication. APIs are the key ingredient of an end product that is ready for administration with a direct effect concerning treatment.

Intermediates are created in the course of a multi-stage chemical reaction. They are not final products but the result of the previous step and the initial product for the following reaction step.

Thanks to investments in capacity and modern technologies, our worldwide network for the production of APIs has grown strongly in the past years and has become clearly more efficient.

Sites: Zofingen, Pennsville, Nantong, Minden, Evionnaz, St. Vulbas

Controlled Substances

Controlled substances are chemicals, whose production, ownership and use are strictly regulated by international conventions and national legislation. The aim is to make allowance for scientific or medical applications while at the same time to prevent misuse and illegal trade.

Our portfolio offer essentially consists of opiate derivatives used in strong pain killers, mainly for cancer therapy, and APIs, such as methadone and nicotine, used in addiction therapy. Siegfried is global market leader in these two product categories.

The Pennsville plant specializes in the production of controlled substances, and it has been issued not only a license for production but, in addition, a rare license permitting importation of the necessary initial materials into the United States. The plant produces about 50% of the controlled substances sold by the Siegfried Group. The other half of the products in this business segment is produced in Zofingen and, since 2016, in Minden. Owing to the integration of the site, Siegfried expanded its already strong market position in this field and is a global leader in products such as pseudoephedrine and ephedrine.

Sites: Zofingen, Pennsville, Minden

Drug Substances Drug Products

Products

Solid Oral Dosage Forms

In galenics – the science of the preparation of medicinal products – active pharmaceutical ingredients (APIs) are applied in a suitable dosage and delivered precisely to where they are required in the body. The API is mixed with certain auxiliary materials and then processed to a liquid, solid or semisolid dosage form. In the field of **solid oral dosage forms,** tablets and capsules prevail.

Siegfried offers a specific range of pharmaceutical development and production of solid dosage forms for the global market. Siegfried's plant in Hal Far (Malta) produces capsules and tablets. The offer ranges from cGMP-compliant scaling-up and production of clinical trial material to mass production and packaging of finished products.

The Zofingen plant operates a modern facility for the development of highly effective finished dosage forms – a market that has grown strongly for a number of years. This allows us to develop both corresponding APIs and finished dosage forms under the same roof. These medications increase not only efficiency but also reduce undesired side effects for patients.

Sites: Zofingen, Hal Far

Liquid Dosage Forms

Sterile and aseptic filling are the main activities of Siegfried in the area of liquid dosage forms. They are among the most demanding processes in galenic production and impose high demands on rooms, air quality, staff, raw materials and surfaces.

Siegfried operates state-of-the-art production facilities in Hameln (Germany) and Irvine (USA), where Siegfried has the capacity to satisfy customer demand for injectables.

Our sites in Hameln and Irvine focus on ampoules, vials and recently also on prefilled syringes. Irvine additionally specializes in the production of sophisticated pharmaceutical products such as ophthalmics and devices for the controlled release of active pharmaceutical ingredients. The plant in Irvine also produces emulsions, ointments and gels. Siegfried constantly expands the technological base of this high-tech site by installing additional production facilities.

In the field of sterile filling, the Hameln facility offers a wide range of additional services along the pharmaceutical value chain: from product development to laboratory services; from preclinical and clinical studies to a comprehensive approval service including monitoring of existing approvals; and the supply of APIs as well as final products ant their release.

Sites: Irvine, Hameln

Services

Exclusive Synthesis (Single Client)

Siegfried features expertise in the manufacturing of custom active pharmaceutical ingredients (API) and intermediates. Our services in the field of exclusive synthesis comprise:
- **Process and chemical development:** We develop genuinely scalable, cost-effective and robust pharmaceutical manufacturing processes, appropriate to our customers' products' market needs.
- **Analytical development:** For effective and robust processes Siegfried applies requisite analytical parameters and controls.
- **Pilot manufacturing and scale up:** Siegfried's core strength is taking a chemical process from development and scaling it up into a cost-effective and robust manufacturing process.
- **Commercial manufacturing:** We provide reliable and consistent commercial supply combined with good quality product and performance. We do this by providing our customer's versatile cGMP manufacturing capability and robust manufacturing processes suitable for specific market needs.

Portfolio Offering (Multi Client)

We offer a wide portfolio of APIs and Controlled Substances focusing on anesthetics, pain/addiction treatment applications, central nervous and respiratory diseases as well as caffeine for human health and nutrition. The offer essentially consists of opiate derivatives used in strong pain killers, mainly for cancer therapy, and APIs, such as methadone and nicotine, used in addiction therapy. Siegfried is global market leader in these two product categories. Our leading expertise in the supply of controlled substances and our outstanding quality and regulatory track record make Siegfried the ideal partner for active pharmaceutical ingredient needs.

Sites

Zofingen
Pennsville
Nantong
Minden
Evionnaz
St. Vulbas

Services

Contract Development and Manufacturing

Siegfried features broad base knowledge and experience for complex oral and sterile dosage forms for customer specific development, production and packaging. Our services comprise:
- **Pharmaceutical development:** We offer our customers a broad range of pharmaceutical development services, be it in the area of complex oral dosage forms or of standard and complex injectable and ophthalmic formulations.
- **Analytical development:** Our specialists from the drug product analytical development team work closely with their pharmaceutical development counterparts to ensure our customer's product is fully supported at every phase in the development process.
- **Scale up and clinical trial material production:** Siegfried's core expertise lies in scaling up a formulation in development into a cost-effective and robust manufacturing process as well as in supporting the customer's clinical trial material needs.
- **Process and analytical transfer:** From an early development phase, Siegfried plans and designs processes that ensure a successful scale up and transfer to commercial production. Siegfried supports complete process transfer of a product, either to Siegfried's Malta site or to the client's own location.
- **Commercial manufacturing and packaging:** Both our Malta and Zofingen plants have a multitude of state-of-the-art technologies and equipment at their disposal to manufacture various complex solid oral dosage forms. At its sites in Hameln and Irvine, Siegfried offers specialized contract aseptic manufacturing for both the pharmaceutical and biotechnology industries, thereby supporting the entire value chain for aseptic services from simple to complex formulation.

Licensing

For our customers wishing to expand their product pipeline, we have selected oral solid and sterile products commercially available. Also, Siegfried assembles complete registration dossiers and offers a Common Technical Document (CTD) for all products.

Sites

Zofingen
Hal Far
Irvine
Hameln

"2018 is going to be a year of growth for us."

Dr. Rudolf Hanko
Chief Executive Officer

Siegfried share price development
31 December 2012 – 31 December 2017

Share Price 2012	Share Price 2017	Increase
114.3 CHF	324.0 CHF	183.5 %
Siegfried share as of 31 December 2012	Siegfried share as of 31 December 2017	Change Period 2012 – 2017

Strategy "Evolve"

Continuation of a Success Story

Siegfried at the end of 2015 successfully finalized the "Transform" strategy. During this phase characterized by impressive sales and earnings growth, the company became the worldwide leading supplier and service provider of chemically produced active pharmaceutical ingredients for the pharmaceutical industry. The follow-up strategy "Evolve" will continue the success story and the growth dynamics at a high level.

Siegfried launched the "Transform" strategy in the year 2010. Its main purpose was to achieve critical size and a leading competitive position. Economies of scale represent a significant success factor in the pharmaceutical supplier and services business. For instance, they permit us to provide our customers with more flexible production capacities and offer a wider technological portfolio. At the same time, we increasingly benefit from a portfolio effect that positively influences our risk profile. In this period, total sales grew from 314 million Swiss francs to 481 million in 2015. Market capitalization at the end of 2015 was 769 million francs or more than double the value recorded at the beginning of the "Transform" period, providing the basis for further prosperity. End of 2017, Market capitalization reached even 1342 million Swiss francs.

Targeted growth of drug substance business
In terms of "Transform" we widened our drug substance business concerning geographical location, customer base and production sites. The result speaks for itself: In 2010 we reported sales on drug substances of 252 million francs, which by the year 2016 grew by 121% to 558 million. We considerably expanded our customer base and capacity thanks to the acquisition of the three BASF drug substance sites in Minden (Germany), Evionnaz (Switzerland) and St. Vulbas (France). The site in Nantong (China) started production in 2016 and produces a broad range of active pharmaceutical ingredients and intermediates, partly accompanied by further processing in Europe and the USA. This production network permits us to offer our customers the best possible site for each of their products. Consequently, our integrated production processes gained additional efficiency, which was further enhanced by

Text continues on page 14 ›

Interview on the "Evolve" Strategy with CEO Dr. Rudolf Hanko

Mr. Hanko, the second year following the acquisition of BASF's pharmaceutical supply business and the enormous growth spurt that followed were characterized by a surge in sales and higher operating profit. Does that imply that you were able to convince all former BASF customers of Siegfried as their partner?
It is a fact that we lost hardly a customer of BASF's former business, and the same goes for Hameln Pharma. Some of the volumes, which we have generated among newly acquired key customers, have partly even grown significantly. That cannot be taken for granted, and it is a testimony to the performance of our employees at all levels and in the various departments of the company. At the same time, we proved that we are capable of successfully integrating large-scale acquisitions. That is of equal importance as the ability to identify good targets.

The operating margin has returned to the target range of 15–20%. Is that due only to synergies, or did you obtain better prices in the market?
We were able to achieve noteworthy cost synergies as well as implement higher prices.

Can we expect more in this regard? If yes, how do you proceed?
Before our various acquisitions, I defined the target range of 15–20% because, as a rule, EBITDA suffer immediately following acquisitions. In the medium term, owing to the high levels of investment required in our business, we aim to reach the upper limit of the range. In the current year we are working hard on this. In concrete terms, we are continually searching for synergies among the sites in terms of, for instance, IT and procurement. Moreover, we focus on our sites in Switzerland as our costs here compared to other Siegfried sites are significantly higher, while efficiency currently does not yet offset the difference. For this reason, we invested in new, modern facilites in Zofingen. Now the processes need to become more efficient. Furthermore, we can identify considerable potential in the use of resources.

The "Evolve" strategy is following "Transform" and focuses on technology and finished dosage forms. Have you identified initial results?
We are making good progress in terms of complementary technologies. The most important project that we are currently implementing is filling of biologically produced substances. For our company this is a significant step into the future. Concerning targeted acquisitions in the field of drug products we are proceeding in our proven manner. We will make an announcement once we have results; as the farmer says: "Don't count your chickens before they are laid".

With the "Transform" strategy, your focus was very much on critical size. Is this topic no longer of significance owing to the current sales volume?
Quite in the contrary, in an industry that is experiencing increasing consolidation, it is gaining relevance fast. Considering our current sales volume, we may be number one in terms of chemically manufactured drug substances, but that can change very quickly. As a strategic partner with a broad line-up, organic growth is insufficient to keep up with the pharmaceutical industry. Consequently, Siegfried remains open for acquisitions that make industrial sense and can be acquired at a reasonable price.

Dr. Rudolf Hanko
Chief Executive Officer

A brief look at the current year. What can shareholders expect?
Siegfried will remain attractive for our shareholders because we are creating value with sound results and do not shy away from making big acquisitions as they come up and if they fit. This has a positive effect on the share price. At the same time, we are continually increasing our profit distribution to our shareholders as shown by the proposal to the Shareholders Meeting.

Please find the video interview with our CEO Dr. Rudolf Hanko at report.siegfried.ch our new facility in Zofingen. Both facilities – Zofingen and Nantong – are consistently designed in accordance with the principle of vertical flow, allowing for an extremely flexible use of production capacity. Owing to low changeover and cleaning times, for instance, idle times are considerably reduced resulting in more attractive cost positions for our customers.

During implementation of "Transform", we clearly strengthened the production of finished dosage forms. In 2012, we acquired Alliance Medical Products (AMP) in Irvine (USA) and in 2014 Hameln Pharma in Germany. Both sites specialize in sterile and aseptic filling, and they clearly increased sales and earnings since their integration into the Siegfried Group.

As a result of organic and acquisition-based growth the number of employees almost tripled in only a few years while global presence increased significantly. This required, and continues to require, great efforts with regard to the continued development of corporate and leadership cultures, which in the future will also belong to Siegfried's everyday life.

"Evolve" is the natural continuation of "Transform"

"Siegfried's central strategic goals for the future will remain the continued expansion of critical size and growth through entry into new and attractive segments of the CDMO market, either by means of organic growth or acquisitions. This will serve to maintain our high level of dynamics and continue to raise the company's intrinsic value," says Wolfgang Wienand, Chief Scientific and Strategy Officer. In a strongly fragmented and rapidly consolidating CDMO market, which makes high demands on quality and technological innovation, one cannot be satisfied with what has been achieved, but has to continue developing and to actively shape our business environment. New activities, such as aseptic filling of biologics (see "Well Positioned in a Dynamic Growth Market", page 15), place high demands on our employees' knowledge and capabilities and their ability to learn new skills. Resting on our laurels is not an option for Siegfried – a highly demanding management task.

Consolidation as an integrated supplier (CDMO)

The core of the "Evolve" strategy aims to reinforce Siegfried's position as the leading integrated supplier to the pharmaceutical industry. The related key areas are targeted expansion of existing business, improved product offer, and diversification into adjoining business segments. "Evolve," therefore, continues to develop the existing with the aim to energetically drive forward the growth of sales and earnings. In figures, Siegfried in the medium term aims to increase sales to at least 900 million francs and the EBITDA margin to about 20%. In order to reach this ambitious goal, Siegfried seeks to significantly enhance high-margin production of finished dosage forms and enter new, attractive business areas. "We plan to reach this level of growth by optimizing internal structures and acquiring strategically suitable companies", says Wolfgang Wienand.

Three strategic thrusts for continued growth

The measures chosen to implement the "Evolve" strategy essentially include three strategic thrusts:

1. **Organic growth initiatives** will make a significant contribution toward targeted growth and the expansion of critical size of sales. Siegfried focuses on the recently commenced plant expansion in Hameln, which serves the sterile filling of chemically produced APIs. The capacity includes production lines for ampoules and vials. The extensions permit technically challenging filling of sensitive bio-pharmaceutical APIs, which can be administered to patients only in liquid form via syringes. In view of above-average growth forecasts in this segment and the high entry barriers for competitors, Siegfried will participate in a market segment expected to remain attractive in the long run. A first step in this direction is represented by the strategic partnership with Symphogen, a Danish bio-pharmaceutical company, in terms of which Siegfried Hameln produced the first biologics last year.
2. **An improved product range** for customers is to be achieved, especially, by means of worldwide expansion into solid finished drug dosage forms (tablets, capsules, powder). Today, Siegfried's production in this area is based in Hal Far (Malta), while the corresponding pharmaceutical development is located in Zofingen. By means of an acquisition, either in the USA or in Europe, Siegfried aims to gain access to additional competitive capacity and formulation technologies. Siegfried plans to expand production capacity hand in hand with strengthening development competencies.
3. The third thrust of "Evolve" concerns the **diversification into adjoining business segments** through targeted investment in technological capabilities or the acquisition of companies focusing on technologies and market segments representing an addition to the Siegfried portfolio. As physical properties of APIs play a significant role in the receptivity of drugs by the human organism we plan, in the coming years, to invest in micronization (miniaturization of drug substance particles, e.g. powder), expansion of existing competencies in spray drying (drying process used in production of powders) or lyophilization (freeze drying) of demanding APIs. Moreover, we plan to establish additional facilities for work with highly effective substances.

"Evolve" Strategy at a Glance: Fields of Action

Growth

Strengthen offerings
– Expand global solida drug product footprint
– Expand overall presence with own production facilities (e.g. US)
– Enhance development setup

Grow within value chain of existing business
– Reach critical size in drug product sector
– Backward integration

Diversify into adjacent new business segments
– Enhance technology base (micronization, spray drying, lyophilization additional high-potent manufacturing capabilities)

Hameln Prepares for the Future

In 2014, Hameln joined the Siegfried Group. In its short period of affiliation with our company, the site has developed extraordinarily well with regard to sales and profitability. In an exemplary way, Siegfried Hameln today reflects Siegfried's power of innovation and strategic focus. The site specializes in filling of liquid dosage forms in vials or ampoules in a sterile or rather aseptic environment. This future-oriented segment is highly demanding in terms of technological and regulatory aspects, and its production process places extremely high demands on our facilities and employees. Last year, in the context of the "Evolve" strategy, Hameln began to invest in equipment serving to fill biologically produced APIs, so-called biologics. This is an attractive future-oriented market with above-average growth and earnings expectations, but high entry barriers.

Siegfried Hameln can benefit from its locational advantage as a number of life-science companies, universities and academic research centers are settled in the immediate vicinity and will serve as a recruitment base for talented future employees. The integration of filling for small molecules and that of biologics at one site will provide us with flexibility in the continued development of both business units. This is reflected, for instance, in the utilization and expansion of our analytical capacities.

A significant step toward the future was taken in May 2017 when Siegfried entered into a strategic partnership with the Danish bio-pharmaceutical company, Symphogen. The company specializes in the mixture of recombinant antibodies for therapeutic use and will cooperate with Siegfried Hameln concerning the filling of antibody products.

What are Biologics?

Biologics are finished dosage forms with a complex structure and a high molecular weight produced by means of biotechnology and genetically engineered organisms. They can consist of proteins, nucleic acid, sugars, or combinations of these substances. Typical examples are medications used in the treatment of inflammatory auto-immune disorders, cancer or insulin for diabetes therapy.

Well Positioned in a Dynamic Growth Market

The market for medicines is well positioned to experience further growth and earnings. Siegfried is active in this attractive market. The CDMO market is also developing positively – providing Siegfried with outstanding perspectives.

Numerous international research studies prove that the worldwide demand for pharmaceutical remedies is set to grow. There are sound reasons for this: Never before have human beings in good health and rising quality of life grown older so fast. In the coming years, new drugs will address so far unsolved health problems such as cancer, autoimmune and metabolic disorders as well as diseases and disorders of the central nervous system. Furthermore, new technologies focused on human cells and molecular-biological methods (CRISPR) provide perspectives that surpass conventional medicines. Complex pharmaceutical remedies will increasingly replace expensive hospital beds – at least partly.

Expectations of global growth in the coming years

According to forecasts made by the Quintiles IMS Institute in the USA, the sum of 1.5 billion US dollars will be spent by the year 2021 on medications worldwide. This corresponds to annual growth of 4 –7% compared to today's figures. The US market will maintain its leading position, while the importance of emerging countries will grow significantly. China will rise to become the number two. In developed markets, growth will be driven mainly by patent-protected products, as opposed to generic products in emerging markets. Above-average growth is predicted for biological methods of treatment.

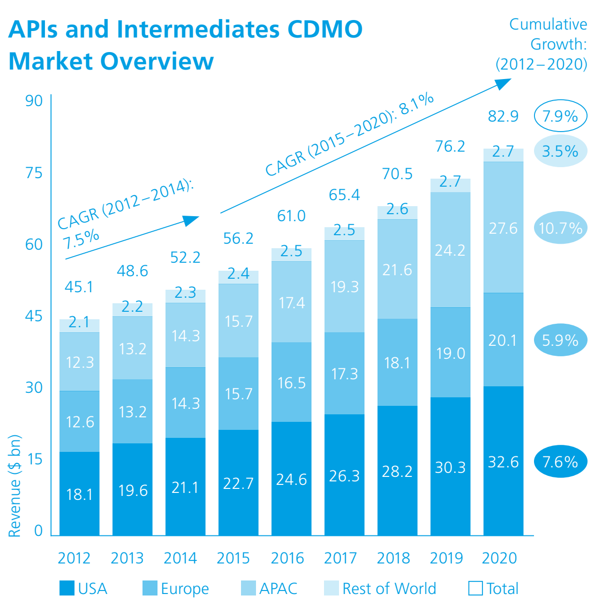
CDMOs are growing increasingly important

Parallel to the positive expectations for the global pharmaceutical market, the significance of outsourcing partners will continue to grow as the development of new drugs – also in view of new technologies – is connected with increasingly higher risks. That is why the pharmaceutical industry increasingly relies on reliable, performance-oriented partners like Siegfried. Based on the positive dynamics of the pharmaceutical industry, Frost & Sullivan strategy consultants expect the growth perspectives of the CDMO industry to remain good. It is expected that by the year 2020 the outsourcing market will grow by 8.4% on average to 108 billion US dollars. The growth forecast for active pharmaceutical ingredients and intermediates is 8.1% per annum and that for medications 9.4%. Frost & Sullivan consider the key factors for this development to be the increasing complexity of clinical development, quality issues in the pharmaceutical industry and continued growth of the market for biopharmaceuticals.

Siegfried – fully prepared

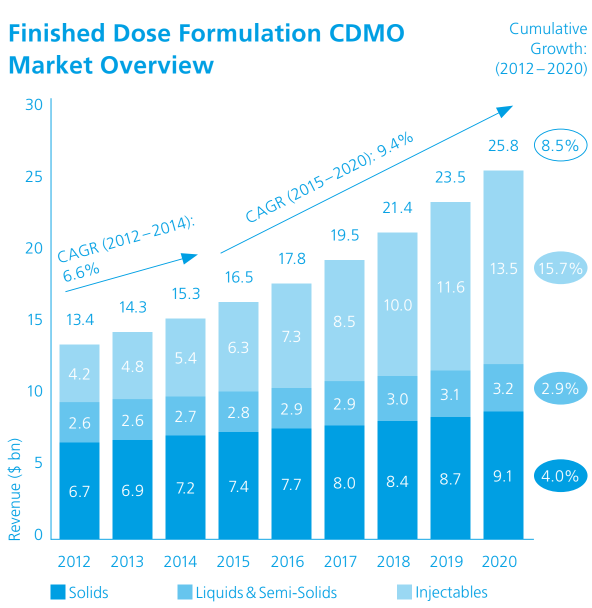
A glance at CDMO industry trends shows that Siegfried is well equipped for continued profitable growth. Owing to the increasing complexity of the business and growing development risks, customers – from a multinational pharmaceutical organization down to a small biopharmaceutical company – look for one single partner for fully integrated solutions from research and development in an early stage of development thru to commercial production of a finished drug (phases I–IV). Thanks to many years of experience in the integration of complementary chemical and pharmaceutical capabilities from a single source and its global development and production network, Siegfried holds the best cards for success in the future. Add to this the company's sound financing and its active role in the industry-wide process of consolidation, which is set to further accentuate in the coming years, and open acquisition perspectives for Siegfried.

APIs and Intermediates CDMO Market Overview



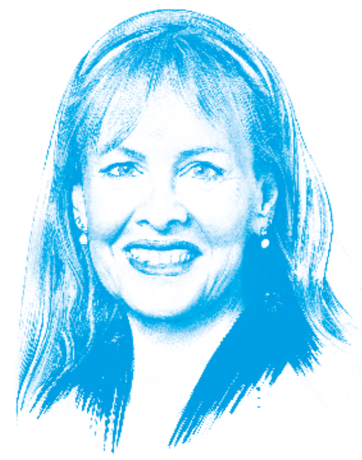
Source: Global Pharmaceutical Contract Manufacturing Organization (CMO) Market by Frost and Sullivan, August 2016

Finished Dose Formulation CDMO Market Overview



Source: Global Pharmaceutical Contract Manufacturing Organization (CMO) Market by Frost and Sullivan, August 2016

3 Questions to: Marianne Späne



Marianne Späne
Head Business Development, Marketing & Sales

What does the significant growth in the demand for medications mainly in the USA and China imply for Siegfried?

Siegfried is present in both markets today and we are, therefore, able to serve customers not only internationally, but also offer options in the local markets themselves. In Nantong (China) we produce an intermediate and an API, while in the USA we cover the entire supply chain from the intermediate to API and sterile filling. Naturally, today already we serve our customers in China and the USA from our plants in Malta, Germany and France.

What advantage does the "Evolve" strategy offer our customers?

"Evolve" supports the trend I have just described. We aim to further strengthen our presence in the USA and in China and enhance our drug substance and drug product segments by means of technologies and competence. One focus will be on expanding the sterile filling segment, and initial cornerstones have already been put in place: the site in Irvine has been equipped with a line to fill syringes, and in Hameln we now offer services in clinical development and recently started to fill biologics there. We shall continue expanding these capabilities.

At the same time, we are strengthening the analytical competencies in both segments. In Zofingen and Hameln, additional laboratory space is being created to fulfil the growing complex requirements.

In Nantong, we expect authorization by the US regulation authority FDA to be granted this year. This will represent another significant milestone in the site's expansion. As a result, Siegfried's customers are supported by a company that is constantly working on making cooperation more attractive.

In which customer segments are you aiming to grow in the coming years?

By means of incorporating BASF's pharmaceutical supply business into our network, Siegfried strengthened its drug substance offer with additional chemical capabilities and expanded the API portfolio. Siegfried is clearly also committed to strengthen its drug products segments. The focus is on expanding sterile capabilities in Europe and the USA in addition to oral dosage forms. Oral dosage forms are currently developed in Zofingen and produced in Malta. This is another area we aim to expand. Moreover, Siegfried will continue to advance growth in its drug substance business and take advantage of the synergy potential provided by its six sites. Siegfried is committed to offer its existing and potential customers a comprehensive integrated service, which requires growth in all segments.

Why Siegfried?

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

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

Critical Size for the Global Market
Sales of 751 million Swiss francs and approximately 2300 employees give Siegfried the critical size for continued growth and expanded worth in the global market. Only with critical size can a balance be reached between profitability and short-term availability of capacity for new orders.

Worldwide Production Network
Since 2012, Siegfried's network of development and production sites grew both organically and based on acquisitions to nine sites in Asia, Europe and North America. This diversification offers Siegfried's customers of all sizes individual quality solutions accompanied by high flexibility, reliability of supply, and efficiency, during and after patent protection.

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

Qualified Employees
True to our quality tradition of almost 150 years, more than 2300 qualified employees work for the Siegfried Group in six countries on three continents. Shared management principles and corporate values apply to all cultures and unite all employees to a global team based on the promise of "expect more".

Comprehensive Technology Portfolio
Siegfried as an integrated quality supplier relies on technological innovation, and every year the company invests heavily in research and development. Own technological innovations based on best ownership combined with selective acquisitions enhance both quality and efficiency of integrated development and production.

Above-Average Growth and Increase in Value
Siegfried has for years achieved steady growth. Sales based on organic and acquisition-related growth increased from 375 million to CHF million Swiss francs in the past five years, representing average annual growth of 18.9%. In 2017, the EBITDA margin amounted to 114 million francs. At the end of 2017, the company's value (market capitalization) was at 1342 million Swiss francs compared to 572 million francs at the end of 2013, representing more than a doubling of the market capitalization.

Convincing Yield for Shareholders
In the past five years, Siegfried's registered share grew significantly faster than the Swiss Performance Index (SPI). While Siegfried's share grew by 183.5 %, the SPI gained only 70.9%.

The compound Annual Growth Rate (CAGR) of total shareholder return in the past three years amounted to 21.7%, a very good value. With a weighting of 70%, the indicator serves as one of the components used in the Long-Term Incentive Plan (LTIP), Siegfried management's long-term remuneration scheme, and it balances the interests of shareholders with those of Siegfried's management. Thanks to a CAGR total shareholder return of 21.7% for 2015 to 2017, Siegfried even exceeded the maximum target value of 12%.

Siegfried traditionally seeks to balance an attractive, predictable distribution policy with the means available for strategy implementation. In view of the favorable business development and within the parameters of earnings performance, the Board of Directors plans to increase payout which, for the coming years, may continue to be paid out from capital reserves.

Interview with CFO Reto Suter

Dr, Reto Suter
Chief Financial Officer

Siegfried aims to continue playing an active role in the future consolidation of the industry. How will future acquisitions be financed, and what influence will this development have on the progress of profitability?
Siegfried enjoys sufficient financial scope to carry out larger acquisitions. Should additional means be necessary, we would be able to obtain these on the market. Siegfried's successful integration of the acquisitions made in recent years increased the market's trust in our company. Initially, acquisitions usually cause extraordinary costs, while they subsequently offer large opportunities owing to synergies and expansion of market position.

How does Siegfried deal with risks concerning the market, technology and growth?
Annual reports published in recent years show that Siegfried has invested not only in acquisitions, but also in technology. Sometimes both simultaneously, as is shown by our entry into the sterile filling market. Our commitment to be at the helm of technological development addresses significant market risks. Also our new plant in Nantong (China) will make a significant contribution toward higher competitiveness in the coming years. We have proven that we can successfully deal with growth risks when we integrated a total of six new sites. In our industry, which is characterized by fast moving consolidation, I consider insufficient critical size to be the bigger risk. We are continuously working on this.

What will Siegfried's shareholder structure look like in the coming years?
I am usually careful when commenting our shareholder structure. From the perspective of operational management, there is an interest in a broad and stable shareholder base, which backs strategy and strategy implementation. There are no signs this should not be the case in the coming years.

Which dividend policy may shareholders expect in the future, and how will you finance the pay-out?
We always ensure that we have sufficient means available for strategy implementation, while in terms of capital efficiency we do not want to retain means unnecessarily. Across time, this will result in moderately growing dividend payout financed from operating cash flow.

Efficiency: the Key to Success

Siegfried's global network is capable of efficiently fulfilling the requirements of a wide range of customers, both in terms of active pharmaceutical ingredients and finished dosage forms. One of our core competencies is technological innovation and a command of complex production processes.

Since Siegfried in recent years has grown organically – for instance by means of the new production plant in China and through acquisitions – we can offer targeted production capacity and respond to short-term customer requests. Today, we offer additional services concerning drug substances, and our two plants for sterile filling, Hameln and Irvine, ideally complement each other concerning special made-to-measure technologies and medium to large size filling.

Also the new production facility in Zofingen represents technological innovation and allows for efficiency gains. Thanks to the consistently vertical design in API production – individual process steps are carried out top to bottom – cleaning of plant and pipe connections is faster. This significantly reduces non-productive changeover and idle times between individual orders. Moreover, the new Zofingen production building will replace older, less efficient facilities.

Challenges, but also many opportunities

"Because we know that technological innovation and constant optimization of our development and production processes are crucial for our business success we must constantly be ready to redefine ourselves", says Wolfgang Wienand, Chief Scientific and Strategy Officer. Ongoing changes and adjustments require a high degree of flexibility from employees. This and our global production network, however, provide many opportunities to enhance professional skills.

Within the parameters of the "Transform" strategy we enlarged our technological base. We significantly increased our spray-drying capacity, invested in the development of highly effective APIs and finished dosage forms, increased our focus on sterile formulations and improved process R&D in the area of low-temperature reactions. Moreover, we continued to develop one of our biggest strengths, namely particle technology, which permits precisely tailored production in the desired solid mold. Under the guidance of the follow-up strategy "Evolve" we deepen and stabilize our expertise in area of new technologies by strengthening global cooperation and building up a network of experts within the company. Today, technology transfers and cross-site cooperation and initiatives have become a part of daily routine. Owing to the larger know-how and the accumulated experiences resulting from projects with customers, we can make them an even better offer in the future.

Continuous improvements in process efficiency

The activity of a CDMO as a developer and producer of active pharmaceutical ingredients and finished dosage forms from a single source is highly complex. In addition to chemical and pharmaceutical know-how, above-average experience and knowledge in defining and steering integrated processes is required. Only if the best possible solution has been achieved will customers be supplied with qualitatively outstanding products at the right time and at the most advantageous price.

At Siegfried, project and program managers control the processes and coordinate the multitude of internal and external partners to form an efficient entity. A program management team newly assembled in 2017 develops, manages and optimizes the most important drug substance products. The team ensures that these products satisfy the requirements, and it optimizes processes concerning delivery capability, quality and economic performance of the products. The global project management team is responsible for all drug substance and drug product projects. The team is the principal contact for customers concerning technical issues and is responsible for the successful execution of the projects. With its activities, the global project management team actively shapes Siegfried's future portfolio. Every year, Siegfried invests in the continued training and education of these teams, as their leadership qualities are decisive for Siegfried's success.

Innovation from development to the patent

In recent years, within the context of business excellence initiatives, several initiatives were introduced and implemented in the area of R&D with the aim of increasing efficiency. One example is process simulation, which allows to predict scaling-up effects while, at the same time, raising the topic of safety.

Innovation plays a significant role also with regard to the services we provide to our customers. For example, by submitting process patents for our portfolio products we ensure a unique market position and thus a competitive advantage. Moreover, by means of our patented processes, we offer our customers a competitive advantage in terms of both the ecology and economics – a win-win situation. In the field of exclusive synthesis we, as a service provider, develop innovative process solutions for a customer-specific molecule, which the customer can submit for patenting. The field of drug products provides the possibility to protect a specific recipe for a finished dosage form resulting in an exclusive usage right.

"Because we know that technological innovation and constant optimization of our development and production processes are crucial for our business success we must constantly be ready to redefine ourselves."
— Wolfgang Wienand Chief Scientific and Strategy Officer

Business Excellence at Siegfried

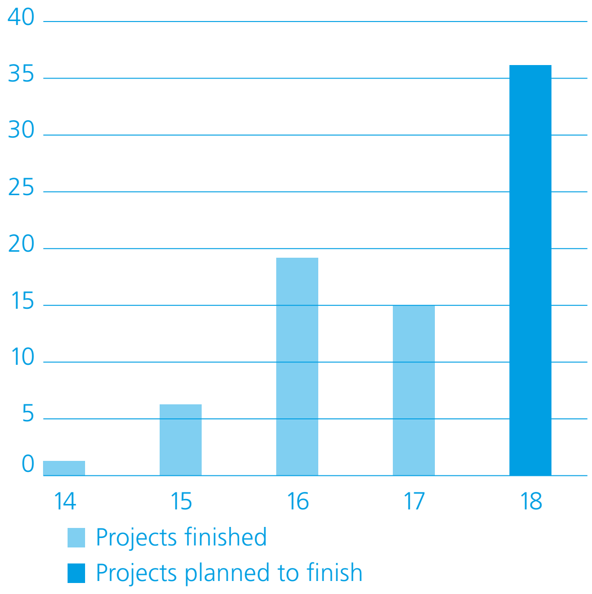
Continued optimization of production and business processes are of fundamental importance in our industry. Siegfried therefore established a business excellence organization and employs Lean Six Sigma tools in order to make processes leaner and more efficient. The most familiar tools are process mapping for analysis and 5S for improvements.

Every year, Siegfried trains about 15 greenbelts and 30 yellowbelts, who receive a certificate following extensive training and a successfully implemented project.

Business excellence projects serve the overriding goals of saving on cost and increasing productivity. In concrete terms, this concerns the reduction of water and solvent consumption in production as well as fewer downtimes and faster changeover. The desired process improvements concern not only production but also have an influence on quality assurance, planning, development, sales and finances.

Our ambition is to train as many employees at all sites worldwide in the use of Lean Six Sigma tools and regularly implement many larger and smaller improvement projects.

Projects Planned and Done



2017 – 37 active greenbelts und 6 active blackbelts (5 in training) across all 9 Sites
– 15 projects finished

Project potential
– CHF 3.6 million projected; CHF 4.3 million realized
Biggest projects: reduction of water costs in Zofingen, enhanced delivery of an important product in Pennsville, efficiency increase in development

2018 – Additional training of 13 Greenbelts
– Running projects: 38

3 Questions to: René Imwinkelried

Dr. René Imwinkelried
Head Technical Operations

What does Business Excellence imply for Siegfried, and what is its significance?
Our goal is to constantly improve ourselves. We aim at success and we therefore have to be better than competition. Awareness of constant improvement is a part of our corporate culture and is being developed accordingly. We choose pragmatic approaches. We like to see progress soon connected with a demonstrable benefit.

How is Business Excellence coordinated and harmonized across the different sites?
We run various improvement projects at all nine sites. The projects aim at simplifying work procedures, improving production processes and reducing energy consumption. The targets and implementation of individual projects are coordinated on a global level and controlled by a steering group. It is important to have a clear goal and a shared understanding of how success is being measured. This procedure provides instructive development options for many employees. Any improvement project – as small as it may be – can lead to success in operations and serves as a motivation for further improvements.

How intensively do you train your employees in terms of process quality? What does the training focus on?
In our industry training is indispensable, since we have to take into account the high quality guidelines of our customers and the authorities. We run a global quality assurance system, which ensures that all sites share and implement the same quality awareness. Consequently, regular training of our employees is necessary. All employees working in production are trained at regular intervals on such topics as safety, plant technology, production processes and quality assurance. Siegfried attributes great significance to the topic of safety because we want all employees to return home safely every day.

3 Questions to: Wolfgang Wienand

Dr. Wolfgang Wienand
Chief Scientific and Strategy Officer

What type of technological challenges does Siegfried expect in the coming years?
We need to continuously invest to keep our technology portfolio up to date. Of course, our aim is to develop beyond only updating existing technology and plant. We are therefore investing in new technologies to gain access to new market segments and customers. In this regard I would like to mention measures we are currently implementing at our Hameln site, which will significantly expand our previously modest activities in the area of aseptic formulation and filling of biological drug substances, such as proteins and antibodies. The investment in R&D activities will amount to a high single-digit million sum and include research labs, analytical technologies and production facilities specialized for this product class. These investments will make us fit for the future. In addition to this very important "hardware", such as technology and laboratories, we are looking to employ experts with whom we can realize our ambitious goals in the biological drug products segment.

As a CDMO, in what way is Siegfried better than its competitors in terms of technological innovation?
One of Siegfried's strengths in the area of R&D is its clear differentiation between innovation that is of relevance to our customers – and therefore for us as their strategic partner – and innovation that should rather be left to customers and niche suppliers. We maintain a strong focus on application-oriented process innovation, in other words, everything that helps us develop and put into practice industrial production processes fast and efficiently. This emphasis ensures that we improve our focus on the value drivers that are of significance to our business and not overextend ourselves technologically.

How do you organize staff training in Research & Development?
Siegfried and our individual employees must share the view that life-long learning and the personal growth connected with the acquired knowledge are of key importance. This is the only way in which we can maintain the foundation for our employees' long-term success and their satisfaction. We therefore attach great importance to passing on internally available knowledge to as many colleagues as possible. Wherever we need to upgrade our level of internal knowledge, we consult external experts or our employees can participate in training courses. This helps us to remain up to date in both technologies, chemical and pharmaceutical.

In 2017, a significant milestone has been achieved by means of developing and expanding capabilities in sterile filling of biologically produced drug products and the corresponding investments in Irvine and Hameln. The close cooperation with Symphogen, a Danish biotechnology company, represents an initial success in this market segment.

What are Biologics?

Biologics are finished dosage forms with a complex structure and a high molecular weight produced by means of biotechnology and genetically engineered organisms. They can consist of proteins, nucleic acid, sugars, or combinations of these substances. Typical examples are medications used in the treatment of inflammatory auto-immune disorders, cancer or insulin for diabetes therapy.

Fill & Finish for Biologics

Fill & Finish for Biologics	**Hameln** Germany	**Irvine** California/USA
Development services	●	
Clinical batch manufacturing	●	●
Commercial batch manufacturing	●	●
Vials	●	●
Pre-filled syringes		●
Cartridges		●

Putting People First

Committed and high performing teams are decisive in reaching business success. We therefore attach great importance to a credible corporate and management culture and support the development of our employees by means of targeted training.

Siegfried has shown vigorous growth in recent years. Owing to a higher global presence in Asia, Europe and North America, overarching corporate values and principles of leadership have become significant drivers of success. For each of our 2331 employees, they represent binding rules of conduct across geographic and cultural borders. A company like Siegfried, which aims to cultivate and develop process and innovation strength as a core competence, must regularly invest in the capabilities of its employees and teams.

Unity in diversity – a demanding goal

We have continued to entrench our corporate values (see Siegfried's Leadership Model, page 21) in all parts of the organization in a systematic and target-oriented manner, even more so since the acquisition of external companies between 2012 and 2015. Individuals in our organization are able to deliver top performance only if they meet on the basis of shared values to form a global team. Despite sharing the same value base in the entire Siegfried Group, we connect particular importance to respecting cultural diversity and to integrate it in our value system. "Unity in diversity" is the common denominator for such a demanding goal. For this to succeed, a great deal of intuition and understanding to deal with sensitive situations as well as mutual respect are required. Arnoud Middel, Head Human Resources, says: "I believe that so far we have managed very well, and we can now continue to develop Siegfried's culture on a secure foundation. At the same time, we know that this process will never be finalized, that there is no such thing as a free lunch, and that we must continue to learn right from the start, also from our failures."

Our new worldwide Intranet, which we introduced in June 2017, makes an important contribution in this regard. This universal electronic platform facilitates the flow of information, global cooperation and the transfer of know-how among employees – a significant contribution in view of our aspired process and innovation quality. Moreover, the trilingual network (English, French and German) supports personal exchange and inter-site understanding among employees, and thereby it acts as a catalyst for the continued development of our culture.

A further example of the global merging of Siegfried's teams is the "Talentry" platform, on which Siegfried employees can recommend open jobs at Siegfried to their friends working outside the company. "Talentry" makes an important contribution toward finding the most suitable person fast and efficiently.

An ambitious human resources strategy as a growth driver

The aim of Siegfried's human resources strategy is to effectively support the company's growth strategy. This is to be achieved by means of capable employees and leadership staff, attractive workplaces and an organization that is geared toward change. Numerous projects in the area of Business Excellence testify to our endeavor to maintain the level of innovation and quality by means of above-average team performance. Not only in our corporate and leadership culture, but also in capability management, we aim to bring our ambition as the leading quality supplier into conformity with our customers' growing demands and technological progress.

Targeted recruitment of suitable employees

In terms of employee skills enhancement, we focus on Employer Branding, in other words, Siegfried's attractiveness as an employer. By concentrating on clearly defined talent groups, we aim to attract suitable specialized staff. Our recruiting process used to take advantage of opportunities and took place via the classical media. In the future, this process will increasingly shift to Web 2.0 and the relevant social media channels. Other examples of increasingly sophisticated recruitment strategy are our internal job platform "Talentry", targeted university marketing, and the new global trainee program.

We promote employees on the basis of company-wide standards, which are binding for individual sites and based on which we train and instruct the human resources managers at the individual sites.

Strong leaders are half of the battle

As for other companies, the same is true for Siegfried: Investments in developing the skills of leadership staff unfold an above-average impact. Consequently, this area represents a load-bearing pillar of human resources strategy. A key element in this regard is represented by our leadership model, which was launched in 2016 and is deepened at each site on a targeted basis. In future, we shall further systematize this training program in order to achieve the same level of quality worldwide. The aim is to communicate close-to-practice contents by means of targeted, short learning coachings that can immediately be integrated into and applied at the workplace. One example of this is the so-called Leadership Dialogue that was implemented as a pilot project at our Hameln (Germany) site: Here, a coach was made available to leadership staff on one day per month in order to discuss individual leadership topics and to develop possible solutions within the parameters of short and practical coaching sessions.

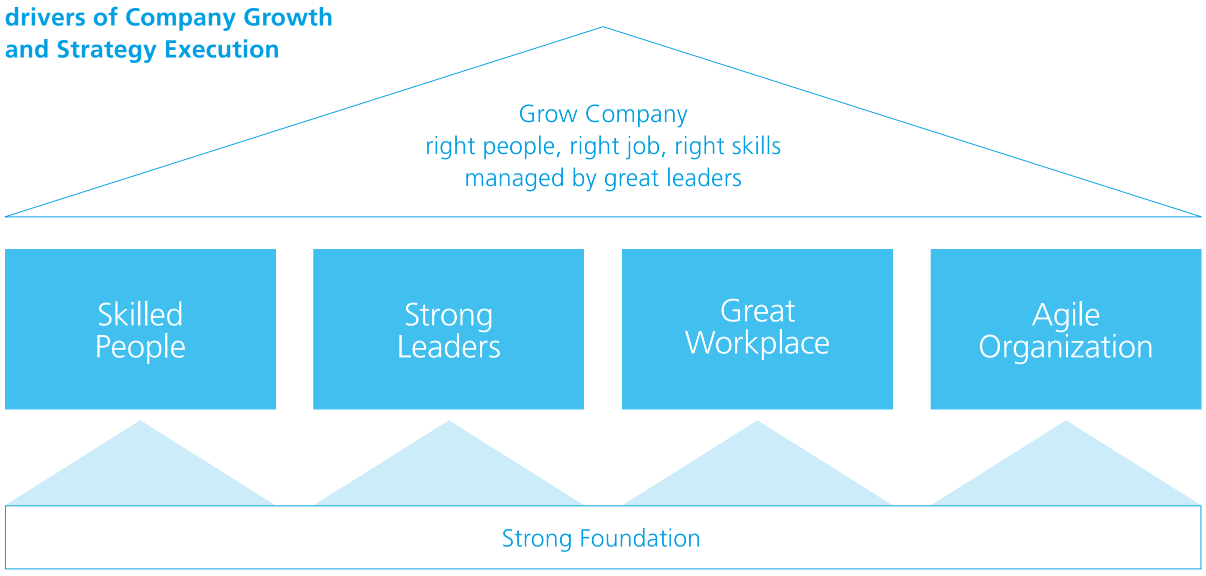
Agile organization as a management challenge

Agility is the capability of an organization to react to change fast, flexibly and with initiative. Connected insecurities need to be actively dealt with and opportunities must be exploited. A discussion concerning agility is therefore a logical consequence of the dynamics resulting from technological and social change, and it has a direct influence on the working environment, the working method, culture, etc. As a market leader in a market that is changing fast in many respects, agility of leadership staff and employees is a key factor for success. Hence, our measures focus mainly on the continued development of our employees, the management of cultural and social diversity, occupational and local mobility, and strategic human resources planning in view of future qualitative and quantitative needs.

In order to develop Siegfried as an agile and fast moving company, competence management was introduced in production. The aim of this management instrument is to identify the competencies of employees and develop them systematically toward increased professional flexibility. This will secure greater operational flexibility and, therefore, better use of resources while ensuring internal and external employability of our staff. A concrete example of this is the knowledge matrix with connected reporting activity introduced at our Zofingen site in June 2017.

> "We can now continue to develop Siegfried's culture on a secure foundation. At the same time, we know that this process will never be finalized, that there is no such thing as a free lunch, and that we must continue to learn right from the start, also from our failures."
> — Arnoud Middel Head Human Resources

HR Strategy as one of the main drivers of Company Growth and Strategy Execution



Siegfried's Leadership Model

3 Questions to: Arnoud Middel

Arnoud Middel
Head Human Resources

You mention agility as a central pillar of Siegfried's HR strategy. What are the biggest challenges and how do you deal with them?
The idea behind the concept of an agile company is the capability of an organization to react to change and opportunities fast and continuously. This can cushion large, "traumatic" and invasive processes of change because change is being dealt with in an ongoing process and as an everyday routine. The challenge is to secure clarity and stability in structures and processes while, at the same time, to continually develop them. In order to reconcile these apparent contradictions at all levels, what is required is the same level of understanding of vision and strategy, disciplined and clear communication, strong leadership, and ongoing targeted development of employees. Employees will then be ready to meet the continually changing requirements.

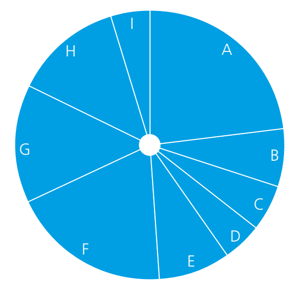
How does one achieve constant readiness for change in a successful company such as Siegfried?
While change cannot be prevented, it can be shaped. Any healthy organization will survive in the long run only if it faces the challenges of change. In a first step, it is important to recognize and accept this fact. As mentioned at the beginning, success in the future is not based on maintaining a supposed stability for as long as possible, but to allow and accept change to happen in the sense of an everyday routine. At all levels this demands the acceptance that change is a reality, and constant adjustment is necessary for survival as much as the willingness to actively shape change. It is important that we give up old habits – "we have always done it that way" and "it used to be better in the old days" – and ask ourselves what we can learn from other companies. What do we have to do in a given market environment in order to be among the best ourselves? This is easier said than done. Adopting this mentality in our everyday business life will make increasing demands on us, especially on leadership staff.

Is there a specific experience or a personal encounter while anchoring corporate culture that you were particularly impressed by?
Often, after achieving a desired result, one is especially pleased about positive feedbacks. With regard to the implementation of our corporate culture, values and leadership principles, I get feedbacks, which show that the message has been understood and that there is a great readiness and need to deal with these issues. I am saying this in full knowledge that we have not yet reached our goal. Occasionally, people openly talk to me about our values and leadership principles, and they inform me that our principles are not always lived up to consistently in everyday life. Feedbacks of this nature from employees give me confidence because they show me that they are aware of what we wish to achieve. Open dialogue of this nature concerning differences and deficits are an important and positive element of culture, and therefore an important precondition to continuously improve. It shows that we are getting closer to achieving the goal of a uniform corporate culture based on values.

Employees Facts & Figures:

Number of employees

2331

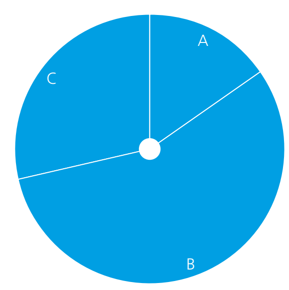


A: Zofingen: 543
B: Pennsville: 159
C: Malta: 128
D: Irvine: 112
E: Nantong: 204
F: Hameln: 441
G: Minden: 336
H: Evionnaz: 298
I: St. Vulbas: 110

Age of employees

41.7

The average age of the employees is 41.7 years.



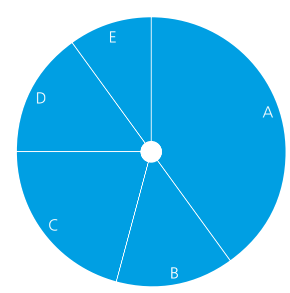
A: up to 30 years: 359
15.4%

B: 31 – 50 years: 1309
56.2%

C: over 50 years: 663
28.4%

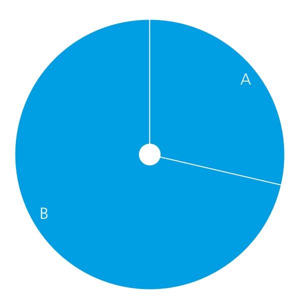
Number of apprentices

92



A: Zofingen: 37
B: Evionnaz: 13
C: Hameln: 19
D: Minden: 14
E: St. Vulbas: 9

Percentage women/men



A: Percentage of women: 28.7%
B: Percentage of men: 71.3%

Siegfried attaches great importance to a discrimination free working environment. Please find more information in our sustainability report, starting on p. 41.


Evionnaz


Zofingen


Hameln


Hal Far


Irvine


Minden


St. Vulbas


Nantong

Pennsville

Brand Management Creates Identification and Strengthens Trust

Siegfried has invested in its brand and cultivated active stakeholder dialogue for years. We are convinced that this contributes toward a shared Siegfried identity at all of our sites and provides our customers with a measurable promise, namely to expect more from us.

Strong brands are consistent, relevant and differentiating. The aim of our brand management is to reach uniform awareness of the Siegfried brand worldwide among relevant internal and external stakeholders and to continually cultivate stakeholders. Thereby, out communication gives orientation, and it stabilizes the trust in our company. We attribute special importance to a shared corporate and leadership culture serving as a link that connects all business units.

Our brand promise, "expect more", conveys our aim to surpass the expectations of all our important stakeholders – both internally and externally.

In recent years, Siegfried has grown vigorously, organically and by means of acquisitions, and we will keep moving in the future. In our dynamic environment, a strong brand that is committed to a clear performance proposition is of vital importance. Siegfried has for many years pursued a single-brand strategy, and the company deliberately avoids sub-brands. For us as suppliers to the life-science industry, it is relevant that our brand promise includes an emotional benefit for the customer, in addition to the functional.

From a purely rational point of view, we are a supplier to the pharmaceutical industry, and our customers evaluate us mainly by means of measurable criteria. However, this does not reach far enough in terms of characterizing our identity. As an organization working in the field of life science, we feel especially committed to people and their health. We expect from all our employees that they live up to this commitment credibly in their everyday lives – internally as a part of the Siegfried family, and externally toward customers, suppliers, neighbors and other relevant stakeholders.

Value-based dialogue with our stakeholders

Siegfried continues to entrench its corporate values in a systematic and targeted way in all parts of its organization, especially, following the acquisition of external companies between 2012 and 2015 (see Siegfried's Leadership Model, page 21). For our employees to deliver the required high performance, they have to form a global team with a shared understanding based on values. We work on this in annually recurring internal workshops and leadership seminars at all sites and at all levels.

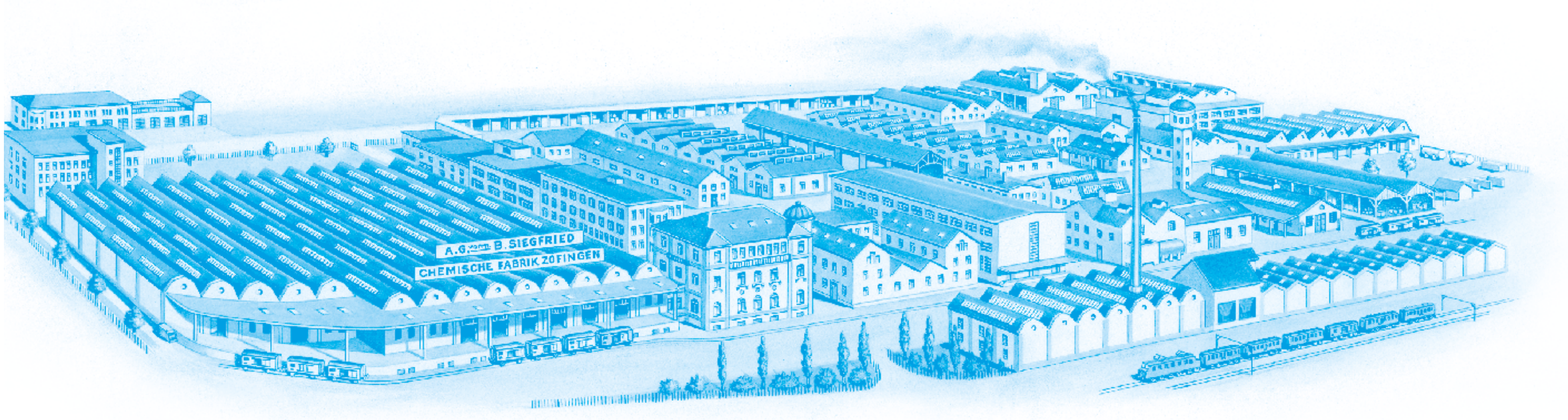
We make use of a stakeholder map (see page 24) in order to create a targeted and systematic dialogue with our stakeholders. The groups of persons included in this map are by no means final. We have determined them on the basis of their relevance to and their potential influence on our company. Moreover, based on regular stakeholder mapping, we can recognize attitudes and interests in order to adapt topics, messages and communication platforms accordingly.

We introduced new means of communications and optimized existing ones for various stakeholder groups. In 2016, we completely revised our website and, in addition to content, we updated its design and technology so that its structure now meets established browsing habits. Thanks to its responsive design, the site automatically adapts to any screen size, clearly increasing user friendliness. Furthermore, we have strengthened our social media presence on the LinkedIn platform. As the largest professional social network, we use LinkedIn to target professional and leadership staff and to present current information and impressions of various corporate events.

In the summer of 2017, we introduced our new Intranet to strengthen internal communication; it has clearly increased the efficiency of our teams and the sense of community around the globe. The Intranet project had the goal of designing a user-friendly, optically appealing instrument that does justice both to the global and the individual local demands of the sites.

Not all of our 2331 employees worldwide work at a screen every day. That is why we continue to invest in a paper-based employee publication appearing four times a year in English and German and also in French for our sites in Evionnaz and St. Vulbas. The contents concern the entire Siegfried Group while individual sites report on local news.

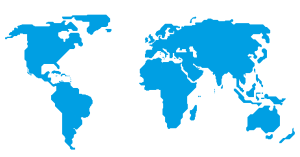
Brand image around 1879 | 1940 | 1948 | 1955 | 1973 | since 2001



Siegfried in Dialog

Viable cultivation of relationships with the most important stakeholders requires not only a suitable corporate culture, but also systematic stakeholder management. The main objective in this regard is to identify the relvant stakeholder groups. Moreover, regular stakeholder mapping serves to recognize their attitudes and interests in order to align our issues, messages and communications platforms.

Our Stakeholders



- Media
- Capital Market
- Customers
- Local Stakeholders
- Employees
- Unions
- Supervisory and Regulatory Authorities
- Political Decision Makers
- Suppliers
- Science
- Associations

Please find the complete stakeholder map in the sustainabiliy report on p. 42

We would be pleased to hear from you.

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Chief Financial Officer
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Corporate Governance

Corporate governance of Siegfried is focused on ensuring a sound and long-term relationship with all stakeholders and providing the necessary transparency.

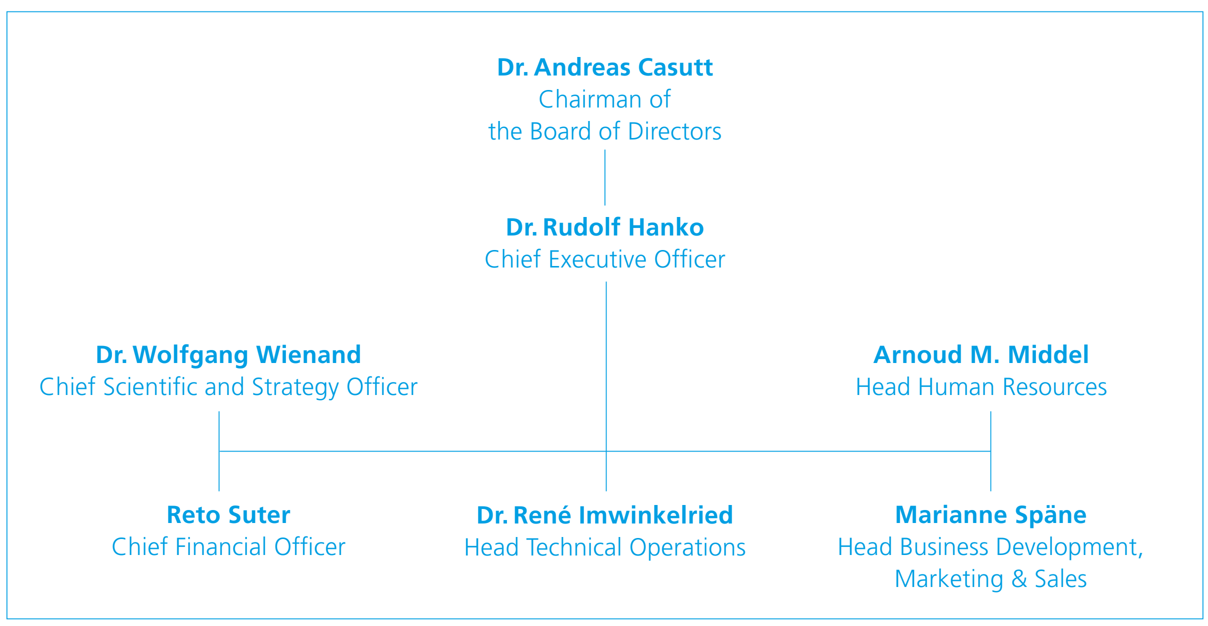
General Framework

Corporate governance of the Siegfried Group is focused on ensuring a sound and long-term relationship with all stakeholders and providing the necessary transparency. It is based on article 663b[bis] and article 663c of the Swiss Code of Obligations (CO), the directive on corporate governance of the SIX Swiss Exchange and the "Swiss Code of Best Practice for Corporate Governance." Remuneration for the Board of Directors and Executive Management is reported in the separate Remuneration Report on page 33 et seq.

1. Corporate Structure and Shareholders

1.1 Management Structure of the Siegfried Group

Management Structure of the Siegfried Group



1.2 Corporate Structure

Siegfried Holding AG, with its registered office located in Zofingen (Switzerland), is the parent company of the Siegfried Group, which, as at December 31, 2017, comprises 20 consolidated operating and holding companies worldwide. Siegfried Holding AG is listed on the SIX Swiss Exchange (valor symbol: SFZN, ISIN: CH0014284498). On December 31, 2017, the market capitalization of Siegfried Holding AG amounted to approximately CHF 1342 million.

The Siegfried Group includes the following major group companies:

	Currency	Capital in LC	Holding
1. Switzerland			
Siegfried Holding AG, Zofingen	CHF	8 421 830	100.00%
Siegfried AG, Zofingen	CHF	20 000 000	100.00%
Siegfried Finance AG, Zofingen	CHF	14 000 000	100.00%
Siegfried Evionnaz SA, Evionnaz	CHF	1 000 000	100.00%
2. Europe			
hameln pharmaceuticals gmbh, Hameln[1]	EUR	750 000	100.00%
hameln rds gmbh, Hameln[2]	EUR	30 000	100.00%
hameln real estate gmbh & co. kg, Hameln[3]	EUR	25 000	100.00%
Siegfried PharmaChemikalien Minden GmbH, Minden	EUR	50 000	100.00%
Siegfried St. Vulbas SAS, St. Vulbas	EUR	15 200 000	100.00%
Siegfried Malta Ltd, Valletta	EUR	100 000	100.00%
3. USA			
Siegfried USA, LLC, Pennsville	USD	500 000	100.00%
Alliance Medical Products, Inc., Irvine	USD	116 521	100.00%
4. Asia			
Siegfried (Nantong) Pharmaceuticals Co., Ltd., Nantong	CNY	422 296 722	100.00%
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province	CNY	10 542 708	49.00%

[1] Since January 15, 2018 new: Siegfried Hameln GmbH.
[2] Since January 15, 2018 new: Siegfried Hameln Service GmbH.
[3] Since January 15, 2018 new: Siegfried Hameln Real Estate GmbH & Co. KG.

1.3 Shareholders

The shareholders listed in the following table have reported holdings of 3% or more of the voting rights of Siegfried Holding AG as of December 31, 2017, based on the shareholder disclosure notifications pursuant to Article 120 of the Swiss Financial Market Infrastructure Act (FMIA). The detailed disclosure notifications pursuant to Article 120 FMIA can be found under: https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html.

As of December 31, 2017, 3875 shareholders were registered in the share registry of Siegfried Holding AG, representing a shareholding of 65.25% of the total share capital. The distribution of the shares among the shareholders was as follows:

	Shares as of 31.12.2017	Holding % as of 31.12.2017 [1]	Shares as of 31.12.2016	Holding % as of am 31.12.2016 [2]
Shareholding >3%				
RAG-Stiftung, Essen, Germany	414 057 [3]	9.83	135 000	3.24
Tweedy, Browne Fund Inc., New York, USA	207 655 [4]	4.93	374 767	8.99
Credit Suisse Funds AG, Zurich	197 123 [5]	4.68	212 100	5.09
Norges Bank (the Central Bank of Norway), Oslo, Norway	141 199 [6]	3.35		
Kreissparkasse Biberach, Biberach, Germany (BayernInvest Kapitalgesellschaft mbH, Munich, Germany)	137 178 [7]	3.26	137 178	3.29
Rainer Marc Frey, Freienbach		< 3 [8]	359 431	8.63
Siegfried Holding AG (own shares)		< 3 [9]	286 671	6.89
Total	**1 097 212**	**26.06**	**1 505 147**	**36.13**

[1] Based on 4 210 915 issued shares as of December 31, 2017.
[2] Based on 4 166 591 issued shares as of December 31, 2016.
[3] According to the disclosure notification of October 5, 2017.
[4] According to the disclosure notification of October 25, 2017. Tweedy, Browne Fund Inc. delegated the voting rights to the shares of Tweedy, Browne Company LLC, see also disclosure notification of Tweedy, Browne Company LLC of October 25, 2017.
[5] According to the disclosure notification of April 11, 2017. According to the latest disclosure notification of January 25, 2018, Credit Suisse Funds AG currently holds less than 3%.
[6] According to the disclosure notification of December 14, 2017. According to the latest disclosure notification of February 1, 2018, Norges Bank currently holds less than 3%.
[7] According to the disclosure notification of April 28, 2012.
[8] According to the disclosure notification of October 5, 2017.
[9] According to the disclosure notification of May 3, 2017.

Distribution of shares as of December 31, 2017	Share-holders	No. of shares	%
1–10	401	2 359	0.06
11–100	2 179	114 280	2.71
101–1000	1 087	326 552	7.75
1001–10 000	168	475 763	11.30
10 001–100 000	33	499 945	11.87
100 001–1 000 000	7	1 328 747	31.55
	3 875	2 747 646	65.25
Own shares and non-registered shares	n. a.	1 463 269	34.75
Total shares		**4 210 915**	**100.00**

Shareholdings by segment as of December 31, 2017, was as follows:

Holdings by segment as of December 31, 2017	Share-holders	No. of shares	%
Significant shareholders (>3%)	5 [1]	1 097 212	26.06
Individuals	3 582	935 796	22.22
Institutional investors	288	714 638	16.97
Own shares and non-registered shares	n. a.	1 463 269	34.75
Total shares	3 875	**4 210 915**	**100.00**

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

1.4 Crossholdings

The Siegfried Group has not entered into any capital- or share-based crossholdings with other companies.

2. Capital Structure

2.1 Share Capital

The share capital of Siegfried Holding AG recorded in the commercial register as of December 31, 2017, amounts to CHF 8 421 830, divided into 4 210 915 fully paid-up registered shares with a par value of CHF 2 per share. Each registered share authorizes the holder to exercise one vote at the General Meeting of Shareholders, and grants the right to receive dividends (subject to the dividend resolution of the General Meeting of Shareholders). There are no preferred rights attached to any Siegfried shares. The Articles of Incorporation of Siegfried Holding AG provide for conditional share capital and do not provide for authorized share capital.

2.2 Conditional Share Capital

The 2014 General Meeting of Shareholders of Siegfried Holding AG approved a conditional share capital of CHF 420 000 in total, divided into 210 000 registered shares with a par value of CHF 2 each. As per December 31, 2017, a total of 60 915 shares had been issued out of the conditional share capital approved in 2014, in accordance with the purpose set forth in the Articles of Incorporation. As a result, the conditional share capital pursuant to Article 3bis of the Articles of Incorporation amounted to CHF 298 170, divided into 149 085 registered shares with a par value of CHF 2 each. This corresponds to approx. 3.5% of the outstanding share capital.

The conditional share capital is reserved for the issuance of Siegfried shares to members of the Board of Directors and / or the employees of Siegfried Holding AG and / or its group companies. Pre-emptive rights as well as advances subscription rights of company shareholders are excluded. The issuing of shares or related pre-emptive rights to members of the Board of Directors and / or employees of Siegfried Holding AG and / or its group companies shall take place in accordance with one or more regulations to be issued by the Board of Directors, taking into account such criteria as performance, functions, responsibility levels, and profitability. Shares or pre-emptive rights may be issued to members of the Board of Directors and / or employees of Siegfried Holding AG and / or its group companies at a price below the market price.

2.3 Changes in Share Capital

In the business year 2017, the share capital of Siegfried Holding AG increased by CHF 88 648 as a result of the issuance of 44 324 shares to the members of the Board of Directors and / or employees of Siegfried Holding AG and / or its group companies out of conditional share capital in accordance with Article 3bis of the Articles of Incorporation.

In the business year 2016, the share capital of Siegfried Holding AG increased by CHF 33 182 as a result of the issuance of 16 591 shares out of conditional share capital in accordance with Article 3bis of the Articles of Incorporation.

In 2015, the share capital of Siegfried Holding AG remained unchanged.

2.4 Limitations on Transferability and Registration of Nominees

The shareholders recorded in the share registry with voting right are entitled to exercise voting and related rights. Registration in the share registry is subject to the following statutory restrictions:

- Registration requests are considered granted if Siegfried has not denied them within 20 days after receipt.
- Petitioners must expressly declare that they have acquired the shares in their own name and for their own account.

Individual persons, who refrain from explicitly declaring in the registration application that they hold the shares for their own account ("nominees") may be entered into the share register with voting rights, provided the nominee enters into a corresponding agreement with the Board of Directors, and is subject to a recognized bank or financial market supervision.

2.5 Convertible Bonds and Warrants

As per December 31, 2017, no convertible bonds or warrants were outstanding.

The privately placed hybrid convertible bond in the notional amount of CHF 60 million issued to the German RAG Stiftung in the business year 2015 was converted into 278 992 Siegfried shares, issued out of treasury shares held by Siegfried Holding AG, on October 2, 2017.

3. Board of Directors

The Board of Directors of Siegfried Holding AG comprises six persons. The Honorary President, former Chairman of the Board of Directors and Chairman of the Executive Board of Siegfried Holding AG, Dr. oec. HSG Bernard A. Siegfried, passed away in October 2017 at the age of 83 years.

During the previous three years, none of the members of the Board held a position in the Executive Management of Siegfried Holding AG or a Siegfried Group company, nor have they had any significant business relationship with Siegfried Holding AG or a Siegfried Group company.

3.1 Members of the Board of Directors

Name	Birth year	Position	Member since	End of term
Andreas Casutt	1963	Chairman, non-executive	2010	2018
Martin Schmid	1969	Vice Chairman, non-executive	2016	2018
Colin Bond	1961	Non-executive member	2013	2018
Wolfram Carius	1961	Non-executive member	2014	2018
Reto Garzetti	1960	Non-executive member	2011	2018
Ulla Schmidt	1949	Non-executive member	2016	2018

3.2 Profiles

Dr. Andreas Casutt,
Chairman

Andreas Casutt (1963) joined the Board of Siegfried Holding AG in 2010 and was elected Chairman in 2014. He has been a partner of the Niederer Kraft & Frey law firm in Zurich since 2002, and held office as managing partner from 2006 to 2014. Andreas Casutt specializes in Corporate law, Contract law, Mergers & Acquisitions, and Stock exchange law. In addition, he is a board member of Mikron Holding AG, Maxon Motor AG, Liechtenstein-based Bendura Bank AG and various privately held companies. Andreas Casutt studied law and received his Ph.D. in Zurich and completed an LL.M. program at the University of Michigan, Ann Arbor. Andreas Casutt is a Swiss citizen.

Dr. Martin Schmid,
Vice-Chairman

Martin Schmid (1969) joined the Board of Siegfried Holding AG in 2016. He was elected Councilor of State for the Canton of Grisons in 2011. From 2003 to 2011, he served as a member of the Canton of Grisons government, where he was in charge of the Department of Justice, Security, and Health as well as subsequently the Department of Finance. Martin Schmid is an attorney at law and serves on several boards in the fields of energy, health and construction. He is president of the Swiss gas industry association (VSG ASIG), of the foundation of the Cantonal Hospital Grisons and of the Institute for financial economy and finacial law (IFF) of the University of St. Gallen. Furthermore, he is a board member of economiesuisse, a Swiss corporate union. He studied law at the University of St. Gallen where he was awarded a Ph.D. in 2005. Martin Schmid is a Swiss citizen.

Colin Bond,
Member of the Board

Colin Bond (1961) joined the Board of Siegfried Holding AG in 2013. In 2016, he has been appointed Chief Financial Officer of Vifor Pharma AG. Previously, Colin Bond held the position of Group Chief Financial Officer of Evotec in Hamburg. Following career stations as a pharmacist, chartered accountant and management consultant, he worked for 25 years as Chief Financial Officer for several international companies in various industries, of which 11 years for Great Lakes Chemical Corporation, today Lanxess, a US-based global specialty chemicals company. Colin Bond holds a university degree in pharmacy from the University of Aston, Birmingham, and a MBA degree from London Business School. He is a citizen of Great Britain and Switzerland.

Prof. Dr. Wolfram Carius,
Member of the Board

Wolfram Carius (1961) was elected member of the Board of Siegfried Holding AG in 2014. In 2016, he was appointed Executive Vice President Pharmaceutical Product Supply at Bayer and, in this function, serves as a member of the Executive Committee at Bayer Pharma. Previously, Wolfram Carius worked for Sanofi, a French healthcare company, as Senior Vice President Biopharma Biologics and member of the Global Leadership Team. From 1987 to 2013, Wolfram Carius held various positions with the pharma company Boehringer Ingelheim. In 2009, he was appointed to the company's Board of Managing Directors, initially with responsibility for Human Resources and Technical Operations, and from 2012 for Biopharma and Operations. Before that, he was responsible for the development and expansion of the biopharma unit. He managed the company's production site in Japan and worked later in Brazil as technical director before being appointed member of Boehringer Ingelheim's Board of Managing Directors in Germany. Wolfram Carius holds a Ph.D. in pharmaceutical biology and analytical phytochemistry from the University of Saarland, Germany. In 2009, the Biberach University of Applied Sciences awarded him the title of honorary professor in recognition of his long and exceptional service. Wolfram Carius is a German citizen.

Reto A. Garzetti,
Member of the Board

Reto A. Garzetti (1960) joined the Board of Siegfried Holding AG in 2011. Since 1999, he is a partner and Vice President of the Board of SE Swiss Equities. He additionally serves on the Board of SKW Stahl Metallurgie Holding AG (until 2016), listed on the German stock exchange, the Board of Peach Properties AG (President), listed on the SIX Swiss Exchange, as well as on the Board of the privately held companies AGI AG, Occlutech AG and other privately held companies in Switzerland and abroad. Previously, he served for many years on the Board of multinational US companies. Reto Garzetti graduated 1986 from the University of Zurich in business administration (lic. oec. publ./MBA) with the main emphasis on banking, trade and securities law. He is a Swiss and Italian citizen.

Ulla Schmidt,
Member of the Board

Ulla Schmidt (1949) joined the Board of Siegfried Holding AG in 2016. She has been a member of the German Bundestag since 1990 and its Vice President from 2013 to 2017. From 2001 to 2009, she held the position of Federal Minister of Health in the Republic of Germany. She served in several public office functions; among others as City Councilor in Aachen. Ulla Schmidt is Chairwoman of the board of Federal Lebenshilfe Association headquartered in Marburg, Germany, an expert member on the supervisory board of Charité-University Medicine Berlin, and member of the advisory committee of K&S Sozialbau AG, Sottrum. Furthermore, she serves on the board of Aktion Mensch, Bonn, and is Chairwoman of the board of trustees of Hospizstiftung Region Aachen and a member of the board of Philips GmbH. Ulla Schmidt holds a prediploma in psychology and was awarded a school teaching degree from the University of Aachen. Ulla Schmidt is a German citizen.

3.3 Permitted Activities in the Supreme Managing or Administrative Body of Other Companies

Members of the Board of Directors of Siegfried Holding AG may not assume more than twenty additional mandates, of which no more than five may be for publicly listed companies. This applies to any mandate in the supreme managing or administrative body of a legal entity that is subject to the obligation to be entered in the Swiss commercial register or a corresponding register abroad. Mandates in different legal entities under common control or owned by the same beneficial owner shall be deemed to constitute a single mandate.

Not subject to these limitations are (i) mandates in companies that are controlled by, or which control, Siegfried Holding AG; (ii) mandates that a member of the Board of Directors assumes at the direction of Siegfried Holding AG or a group company, provided that no member of the Board of Directors may assume more than ten such mandates at companies that are not controlled by, or do not control, Siegfried Holding AG; (iii) mandates in associations, non-profit foundations, and pension benefit foundations, provided that no member of the Board of Directors may assume more than ten such mandates.

3.4 Election and Terms in Office

The members of the Board of Directors as well as the Chairman of the Board and the members of the Remuneration Committee of Siegfried Holding AG are elected by the General Meeting of Shareholders. Subject to the foregoing, the Board of Directors constitutes itself.

The Board members are elected for a term of one year that expires at the end of the next Annual General Meeting. Reelection is allowed. The Board Regulations specify that members must retire from the Board at the General Meeting of Shareholders after reaching the age of 72. Certain exceptions may be made for the Chairman or the Honorary Chairman.

Board of Directors

Dr. Andreas Casutt
Chairman

Dr. Martin Schmid
Vice-Chairman

Colin Bond
Member of the Board

Prof. Dr. Wolfram Carius
Member of the Board

Reto A. Garzetti
Member of the Board

Ulla Schmidt
Member of the Board

Please find the detailed CVs of the members of the Board of Directors and the Executive Management on p. 27 and 30–31 or at www.siegfried.ch

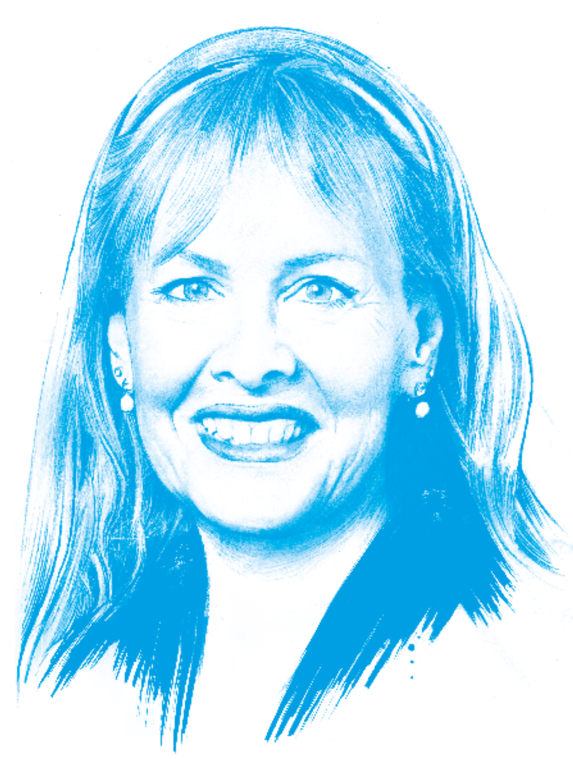
Executive Management

Dr. Rudolf Hanko
Chief Executive Officer

Dr. Reto Suter
Chief Financial Officer

Dr. René Imwinkelried
Head Technical Operations

Arnoud Middel
Head Human Resources



Marianne Späne
Head Business Development,
Marketing & Sales

Dr. Wolfgang Wienand
Chief Scientific and Strategy Officer

3.5 Internal Organization

The Board of Directors is responsible for the supervision of the Siegfried Group and its business units. The Board determines the Group strategy, the allocation of resources, and the management structure of the Siegfried Group. It is also responsible for setting the organizational structure, accounting, financial control, and financial planning. To the extent it does neither exercise these duties itself nor delegate them to the Chairman of the Board, the Board of Directors has delegated the management of the business to the CEO of the Siegfried Group. Decisions are taken by the entire Board of Directors. The Board Regulations setting forth the Board's powers, duties, and internal organization may be found under http://www.siegfried.ch/fileadmin/Dateien/Downloads/Legal_Documents/Legal_Documents/2015_Organisationsreglement_DE.pdf.

During the business year 2017, the Board of Directors met for three one-day ordinary meetings, two half-day ordinary meetings and a strategy meeting of two days. In addition, numerous teleconferences were held. All Board members were present at all meetings.

The following three Board Committees assist the Board of Directors:

— Audit Committee
— Remuneration Committee
— Strategy Committee

The responsibilities and competencies of the committees are set forth in more detail in article 16 paragraph 4 of the Articles of Incorporation (Remuneration Committee) (http://www.siegfried.ch/fileadmin/Dateien/PDF/Others/Statuten/EN_Statuten.pdf) and Section 3.3.3 of the Board Regulations (see http://www.siegfried.ch/fileadmin/Dateien/Downloads/Legal_Documents/Legal_Documents/2015_Organisationsreglement_DE.pdf). The Board Committees review and discuss important matters in their relevant field of responsibility prior to Board meetings. The Chairman of the Board, the CEO and the CFO, and the responsible members of the Executive Management regularly attend these meetings. The Board Committees submit recommendations to the Board.

During the business year 2017, the Audit Committee and the Remuneration Committee met three times each, and the Strategy Committee twice for half-day meetings. All committee members as well as the Chairman of the Board of Directors participated in the meetings. The following table shows the composition of the Board Committees for the term of office 2017/2018:

Committee	Vorsitz	Mitglieder
Audit	Colin Bond	Reto Garzetti, Martin Schmid
Remuneration	Reto Garzetti	Martin Schmid, Ulla Schmidt
Strategy	Wolfram Carius	Reto Garzetti, Ulla Schmidt

3.6 Information and Control Instruments

The internal information and control system of the Board of Directors and the Executive Management is based on the following monthly reporting instruments: Revenues and other financial results of the Siegfried Group are presented in detail and compared with the budget and the previous year's results – including a financial forecast for the entire year. Quarterly reports focus on budget deviations, important business incidents, and the most important key performance indicators. A five-year plan outlines the financial planning for the next five business years. The Internal Control System (ICS) and a comprehensive risk management procedure (described in detail on pages 58 et seq. of the Financial Report) further add to the Board's information and control instruments.

The results are discussed and evaluated with the CEO and CFO at the meetings of the Board of Directors. Furthermore, the Chairman of the Board discusses the course of business and other important topics with members of the Executive Management on a regular basis.

4. Executive Management

The Chief Executive Officer (CEO) is responsible for the operative and results-oriented management of the Siegfried Group and its divisions. Subject to the competencies and directives of the Board of Directors and its Chairman, the CEO is responsible for the formulation and achievement of the corporate goals as well as the management of the subordinate Group companies (results and balance sheet responsibilities). The detailed capacities and functions of the CEO are described in the Siegfried Group Board Regulations (see http://www.siegfried.ch/fileadmin/Dateien/Downloads/Legal_Documents/Legal_Documents/2015_Organisationsreglement_DE.pdf).

4.1 Members of the Executive Management

Dr. Reto Suter assumed the position as Chief Financial Officer of the Siegfried Group from Michael Hüsler, who had been a member of the Executive Management since 2009, per May 1, 2017. Also effective from May 1, 2017, the Board of Directors entrusted Wolfgang Wienand with the position as Head Research and Development, in addition to his position as Head Strategy, M&A, Legal, IP and Regulatory Affairs, succeeding Dr. René Imwinkelried. Dr. Imwinkelried, who had been responsible for Research and Development since 2012, has been appointed as Head of Global Technical Operations in November 1, 2016.

4.2 Management Contracts

Siegfried Holding AG and its group companies have not entered into any management contracts with third parties.

4.3 Permitted Activities in the Supreme Managing or Administrative Body of Other Companies

Members of the Executive Management of Siegfried Holding AG may not assume more than five additional mandates, of which no more than one may be for a publicly listed company. This applies to any mandate in the supreme managing or administrative body of a legal entity that is subject to the obligation to be entered in the Swiss commercial register or a corresponding register abroad. Mandates in different legal entities under common control or owned by the same beneficial owner shall be deemed to constitute a single mandate.

Not subject to these limitations are (i) mandates in companies that are controlled by, or which control, Siegfried Holding AG; (ii) mandates that a member of the Executive Management assumes at the direction of Siegfried Holding AG or a group company, provided that no member of the Executive Management may assume more than ten such mandates at companies that are not controlled by, or do not control, Siegfried Holding AG; (iii) mandates in associations, non-profit foundations, and pension benefit foundations, provided that no member of the Executive Management may assume more than ten such mandates.

As per December 31, 2017, the Executive Management of Siegfried comprised the following persons:

Name	Birth year	Position	Member since	In current function since
Rudolf Hanko	1955	Chief Executive Officer	2009	2009
Reto Suter	1971	Chief Financial Officer	2017	2017
René Imwinkelried	1957	Head Technical Operations	2012	2016
Arnoud M. Middel	1971	Head Human Resources	2011	2011
Marianne Späne	1962	Head Business Development, Marketing & Sales	2004	2010
Wolfgang Wienand	1972	Head Strategy and M&A Head Research & Development	2010	2011 2017

4.4 Profiles

Dr. Rudolf Hanko,
Chief Executive Officer

Rudolf Hanko (1955) was appointed CEO of Siegfried in May 2009. Prior to joining Siegfried, he worked in the chemical-pharmaceutical industry in various management positions, at Evonik Industries AG (Germany) as Head of Exclusive Synthesis & Amino Acids. Rudolf Hanko also headed the pharmaceutical division of Bayer AG as Head of Chemical Research and as General Manager of the fine chemicals division. Rudolf Hanko received his Ph.D. in chemistry from the University of Göttingen and completed post-doctoral studies at the Max Planck Institute. Rudolf Hanko is a German citizen.

Dr. Reto Suter,
Chief Financial Officer

Reto Suter (1971) joined Siegfried on May 1, 2017, as Chief Financial Officer. Over the last 16 years, he has held a range of responsible positions in industry as well as in finance and private equity. In his last post as COO, CIO and Board Member, Reto Suter was responsible for overseeing the public takeover and subsequent delisting and restructuring of Lonrho, a long-established company headquartered in London (UK) and Johannesburg (SA). Reto Suter studied economics at the University of Zurich and the University of Washington in Seattle and took his doctorate in banking and finance at the University of Zurich. Reto Suter is a Swiss Citizen.

Dr. René Imwinkelried,
Head Technical Operations

René Imwinkelried (1957) heads Technical Operations since November 2016. From 2012 to May 2017, René Imwinkelried was responsible for the Research & Development of the Siegfried Group. From 2010 to 2012, he was Head of Technical Development Small Molecules at Roche in Basel. From 1991 to 2004, he worked in various R&D management positions at Lonza, and as Head of global chemical and physical sciences at US-based Schering-Plough. He holds a Ph.D. in organic chemistry from the ETH Zurich and completed a post-doctoral fellowship at Colorado State University and Harvard University. René Imwinkelried is a Swiss citizen.

Arnoud M. Middel, Head Human Resources
Arnoud Middel (1971) joined the Siegfried Group in September 2011 as Head of Human Resources. Previously, he worked for various companies in the field of human resources. From 2003 to 2006, he held a leading position in the Human Resources department of the Baloise insurance Switzerland. From 2006 to 2008, he was Head HR for the region Continental Europe and Asia of the American industry- and reinsurance group XL-Insurance (today XL-Catlin). From 2008 to 2011, he worked as Head of HR Switzerland and Global Headquarters for Syngenta in Basel. He completed his studies in biology and biochemistry at the University of Basel. Arnoud Middel is a Dutch citizen.

Marianne Späne, Head Business Development, Marketing & Sales
Marianne Späne (1962) joined the Siegfried Group in 2004 and was appointed Head of Business Development & Sales in March 2010. She headed the Siegfried Generics Division from 2008 to 2010 and was previously responsible for the Classical Generics Business Unit. From 2004 to 2008, Marianne Späne managed the Business Development Department and the Supply Chain for Generics. Prior to joining Siegfried, she worked in logistics, business development and as site manager for Boucheron, a cosmetics company. Later, Marianne Späne moved to the pharmaceutical industry and joined the pharma division of Schweizerhalle as Head of the Sales and Marketing department. Subsequently, she joined Aceto, a US-based company, where she developed European expansion strategies. Marianne Späne holds degrees in finance, business administration and marketing from the Business Management School (KFS) in Basel and the Marketing & Business School in Zurich (MBSZ). Marianne Späne is a German citizen.

Dr. Wolfgang Wienand, Chief Scientific and Strategy Officer
As of December 2011, Wolfgang Wienand (1972) leads the departments Strategy, Mergers & Acquisitions, Legal and Intellectual Property Management and Regulatory Affairs. Since May 1, 2017 he is also responsible for Siegfried's global Research and Development activities. He held this position previously from August 2010 to August 2012. Before joining Siegfried, he held senior management positions at Evonik Industries AG, formerly Degussa AG, with a focus on fine chemistry and custom manufacturing for the pharmaceutical industry. Wolfgang Wienand studied chemistry at the University of Bonn and subsequently obtained a Ph.D. in organic and bioorganic chemistry from the University of Cologne. In addition, he holds an Executive Master's Degree in International Finance of HEC in Paris. Wolfgang Wienand is a German citizen.

5. Remuneration, Investments and Loans

5.1 Content and Method of Determining the Remuneration and the Equity Participation Plans

For details regarding the remuneration and shareholdings of the members of the Board of Directors and the Executive Management as well the principles and elements of remuneration and the equity participation plans of members of the Board of Directors and the Executive Committee, together with a description of the authorities and procedures in connection therewith, please refer to the Remuneration Report on page 33 et seq. of this Annual Report.

5.2 Statutory Provisions regarding Performance-Related Remuneration and the Allocation of Equity Securities

Pursuant to article 23 of the Articles of Incorporation and subject to approval by the General Shareholders' Meeting, the remuneration of the members of the Board of Directors consists of a fixed base remuneration, an individual functional remuneration and a lump-sum expense allowance in cash, as well as a fixed number of shares of Siegfried Holding AG. The Board of Directors determines the number of shares as well as the relevant terms and conditions, including the time of their allocation and any restrictions on transferability. Absent exceptional circumstances, the members of the Board of Directors do not receive any performance-based remuneration; any such remuneration would be measured against predefined performance targets only.

Pursuant to article 24 of the Articles of Incorporation and subject to approval by the General Shareholders' Meeting, remuneration for members of the Executive Management consists of a fixed base remuneration in cash as well as performance-based remuneration, which comprises a short term performance-based remuneration in cash as well as a multi-year employee share ownership plan. The Board of Directors determines the targets, target levels, and target achievement for both the short- and the long-term performance-based remuneration in accordance with the principles set forth in the Articles of Incorporation (cf http://www.siegfried.ch/fileadmin/Dateien/PDF/Others/Statuten/EN_Statuten.pdf).

In the event of a change of control of Siegfried Holding AG, or in case of other extraordinary events, the Board of Directors may during the course of an ongoing performance period adapt, shorten or eliminate the targets for performance-based remuneration, exercise conditions and periods as well as vesting periods and the relevant performance-based remuneration may be forfeited or paid out under the assumption that targets would have been achieved.

5.3 Statutory Provisions regarding Payments to Members of the Executive Management Appointed after the Shareholders' Vote on Pay

Pursuant to article 25 of the Articles of Incorporation, Siegfried Holding AG or any group company may, with respect to any member of the Executive Management who joins the Executive Management or is promoted during a period for which the General Shareholders' Meeting has already approved remuneration for the Executive Management, pay out remuneration for such period(s) if the amount already approved is insufficient. The amount per remuneration period may not exceed 40% for the CEO and 25% for each other member of the Executive Management, of the most recently approved total remuneration.

In addition, Siegfried Holding AG may compensate a newly appointed member of the Executive Management for any losses suffered in connection with assuming the new position as a result of forfeited vested benefits from his previous position. Such compensation may not exceed CHF 1 000 000 for the CEO and CHF 500 000 per person for the other members of the Executive Management.

5.4 Statutory Provisions regarding Loans, Credit Facilities and Post-Employment Benefits

Pursuant to article 27 of the Articles of Incorporation, Siegfried Holding AG may grant loans and credits to members of the Board of Directors and the Executive Management up to a maximum of the total of their respective individual fixed base remuneration in cash. In addition, Siegfried Holding AG may pay advances on attorney fees, court costs, and the like, up to a maximum of CHF 1 000 000 per member, in order to defend against liability and similar claims by third parties in connection with its activities performed for the company.

5.5 Statutory Provisions on the Vote on Pay at the General Shareholders' Meeting

Pursuant to article 16 of the Articles of Incorporation, the General Shareholders' Meeting resolves annually on the approval of the motions of the Board of Directors with regard to:

- the maximum total amount of remuneration for the Board of Directors for the term of office expiring at the next ordinary General Shareholders' Meeting;
- the maximum total amount of fixed remuneration for the Executive Management for the following financial year;
- the total amount of short-term performance-based remuneration for the Executive Management for the most recent financial year;
- the total amount of long-term performance-based remuneration for the Executive Management for the current financial year.

Resolutions on the approval of remuneration for the Board of Directors and the Executive Management, respectively, are taken separately. The Board of Directors may submit the elements of remuneration for approval either separately or combined. In addition, the Board of Directors may submit proposals to the General Shareholders' Meeting regarding (i) the total amounts and/or remuneration elements for other periods and/or (ii) supplementary amounts for certain remuneration elements. If the General Shareholders' Meeting declines to approve a motion of the Board of Directors, the Board of Directors may submit new motions at the same General Shareholders' Meeting, at an extraordinary General Shareholders' Meeting, or at the next ordinary General Shareholders' Meeting.

6. Shareholder Rights

6.1 Voting Rights and Proxy

Each share registered in the share registry with voting rights grants to its holder one voting right at the General Meeting of Shareholders. A shareholder may be represented at the General Shareholders' Meeting by a natural person duly authorized in writing, or by the independent voting proxy.

The General Meeting of Shareholders passes its resolutions by a simple majority of the votes cast, unless a qualified majority is required by applicable law or the Articles of Incorporation. If no absolute majority is reached, the chairman casts the deciding vote.

The approval of at least two-thirds of the votes represented is required for resolutions of the General Shareholders' Meeting with respect to:

- a change of the company's purpose
- the creation of shares with preferential voting rights
- amendments to the provisions governing the transferability of shares
- the conversion of registered shares into bearer shares
- an authorized or conditional increase in capital
- an increase in share capital through the conversion of capital surplus, through an in-kind contribution or in exchange for an acquisition of property and a grant of special benefits
- the restriction or cancellation of pre-emptive rights
- the relocation of the company's registered office
- the dissolution of the company without liquidation.

6.2 Calling a General Meeting of Shareholders and Setting the Agenda

The General Meeting of Shareholders is called and the agenda therefore is set in accordance with the applicable provisions of the Swiss Code of Obligations.

Shareholders representing shares with a nominal value of CHF 500 000 or more may request that an item be added to the agenda of the General Shareholders' Meeting. Any such request must be made in writing at least 45 days prior to the meeting, setting forth the requested additional agenda item and the motion thereto. No previous request or notification is required for motions concerning items included on the agenda and for debates as to which no vote is taken.

6.3 Entry into the Share Register/ Invitation to the General Meeting of April 20, 2018

The Board of Directors has determined that the share registry for the Annual General Meeting 2018 will be closed on Thursday, April 12, 2018. All Shareholders wishing to attend the Annual General Meeting of April 20, 2018, must submit their application for registration of shares in the share registry no later than said date. No entries into the share registry will be made from Friday, April 13, 2018, until Friday, April 20, 2018. Shareholders who sell their Siegfried shares prior to the General Meeting of Shareholders forfeit their voting rights.

The invitation to the General Meeting, the minutes of the previous General Meeting, and the motions of the Board of Directors are made accessible on the website of the Siegfried Group (www.siegfried.ch).

7. Control Changes and Defensive Measures

7.1 Mandatory Take-Over Offers

There are no provisions in the Articles of Incorporation of Siegfried Holding AG regarding opting out or opting up (article 125 and 135 of the FMIA).

7.2 Change of Control Clauses

The Long Term Incentive Plan of the Siegfried Group (see Remuneration Report, page 36 et seq.) provides that:

a) in the event of a change of control of Siegfried Holding AG, plan participants will, on the date of the change of control, receive a pro-rated number of Siegfried shares for all PSUs granted for ongoing vesting periods. The number of Siegfried shares to be distributed per PSU is calculated on the basis of a valuation method to be determined by the Board.
b) in the event of a takeover which is not endorsed by the Board, Siegfried shares will be distributed to the plan participants pro-rata and on the basis of 100% target achievement as per the date of change of control for all PSUs granted for ongoing vesting periods. The pro-rata entitlement is calculated from the grant date of the PSUs until the date of change of control.

8. Auditors

8.1 Contract Duration and Lead Auditor Term Length

PricewaterhouseCoopers AG (PwC), Basel (or its predecessor companies) has been the statutory auditor of Siegfried Holding AG since 1920. For the business year 2017, the lead auditor, Thomas Illi, carried out the audit for the first time. The auditor is annually elected by the General Meeting of Shareholders.

8.2 Audit Fees

PwC billed the Siegfried Group for services in connection with auditing of the annual financial statement of Siegfried Holding AG and of the Siegfried Group companies, the consolidated 2017 financial statement of the Siegfried Group and related auditing services CHF 746 000 (2016: CHF 763 000).

8.3 Additional Fees

For tax consulting during 2017, PwC billed the Siegfried Group CHF 322 000 (2016: CHF 345 000), and for other services CHF 50 000 (2016: CHF 58 000) in additional fees. Further costs for tax consulting and other services by other auditors amounted in 2017 to CHF 41 000 (2016: CHF 29 000).

8.4 External Audit Informational Instruments

The Audit Committee evaluates and discusses the performance, fees, and independence of the auditor every year. It reports to the Board and proposes a motion at the General Meeting on the election (or reelection) of the auditor. The contract is awarded based on a budget presented to the Audit Committee by the auditor.

The auditor regularly attends the meetings of the Audit Committee; there were three meetings in 2017. During such meetings, the auditor presents detailed audit reports, which are also distributed to the Board. Assignments for PwC that go beyond the auditing mandate are subject to approval by the head of the Audit Committee.

9. Information Policy

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, the minutes of the previous General Meeting, media releases, important information and the current share price can be found at www.siegfried.ch. A news conference is held semi-annually for the media and financial analysts.

Siegfried Holding strictly observes the mandatory disclosure rules of the SIX Swiss Exchange ("ad hoc disclosure") regarding potentially price sensitive facts.

In 2018, the Siegfried Group will inform about the course of business as follows:

- March 14, 2018: publication of results for the 2017 business year at a media and analyst conference in Zurich (media and financial analysts)
- April 20, 2018, 10:00 a.m.: Annual General Meeting of Shareholders
- August 21, 2018: publication of 2018 half-year financial results

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Remuneration Report

The Remuneration Report describes Siegfried Group's (Siegfried's) remuneration principles and defines the competencies and responsibilities associated with setting remuneration for members of its Board of Directors and Executive Committee. The report also contains detailed information about remuneration plans and payments made in the 2017 financial year.

This Remuneration Report was drafted in accordance with Siegfried Holding's articles of incorporation and with SIX Swiss Exchange's Directive Corporate Governance, and contains all the information required as per article 663b^{bis} and article 663c paragraph 3 of the Swiss Code of Obligations (CO), as well as articles 13 to 17 of the "Ordinance Against Excessive Compensation at Public Companies" (Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV).

The Remuneration Report is structured as follows:
- Introduction by the Chair of the Remuneration Committee
- Competencies and tasks of the Remuneration Committee
- Procedures for setting and authorizing remuneration
- Principles of remuneration policy and remuneration elements
- Remuneration of the Board of Directors
- Remuneration of Executive Committee members
- Shareholdings of the Board of Directors and Executive Committee at the end of the reporting year
- Contractual agreements, loans, credits, and additional contributions

In this report, details pursuant to articles 14 to 17 VegüV are to be found in the following sections:

VegüV Article	Text/Figure/Table	Page
Art. 14: Remuneration paid to the Board of Directors and Executive Committee	Remuneration paid to the Board of Directors in the 2017 reporting year (audited)	38
	Remuneration paid to the Board of Directors for the 2017/2018 term of office (projection)	38
	Remuneration paid to the Board of Directors in the 2016 reporting year (audited)	38
	Remuneration paid to the CEO and Executive Committee in the 2017 reporting year (audited)	39
	Remuneration paid to the CEO and Executive Committee in the 2016 reporting year (audited)	39
	PSUs allocated to the CEO and Executive Committee in the 2017 reporting year	39
Art. 15: Loans and credits granted to the Board of Directors and Executive Committee	As of December 31, 2017, Siegfried Holding AG and its Group companies do not have any outstanding securities, loans, advances or credits to members of the Board of Directors or the Executive Committee of Siegfried Holding AG. (audited)	40
Art. 16: Remuneration, loans and credits to affiliated persons	Further, no securities, loans, advances or credits were granted at non-market rates to persons affiliated with current members of the Executive Committee or Board of Directors or to former members of the Executive Committee or Board of Directors in 2017; nor are any such commitments outstanding as at December 31, 2017. (audited)	40
Art. 17: Audit of the remuneration report by statutory auditor	Report of the Statutory Auditor on the Remuneration Report	40

Introduction by the Chair of the Remuneration Committee

The remuneration of the Board of Directors, the Executive Committee, and non-management employees of the Group is an important topic for all of Siegfried's stakeholders. In 2017, the Remuneration Committee thus once again made concerted efforts to ensure Siegfried's attractiveness as an employer, ensure full and transparent compliance with statutory regulations/internal guidelines and review the appropriateness of the remunerations on an ongoing basis.

The following topics related to remuneration were addressed in 2017:
- Adjustment of remuneration structure and remuneration amounts for the Board of Directors for the 2017/2018 term of office
- Review of overall remuneration for the Executive Committee
- Adjustment of Long Term Incentive (LTI) remuneration for the Executive Committee

This report provides detailed explanations of our remuneration principles and model; it sets out how each remuneration element and plan works and highlights how they are linked to enterprise value and target achievement. The report also presents – and comments on – key targets, target achievement and the resulting amounts paid to the Board of Directors and Executive Committee in the reporting year, as per legal requirements.

As explained in the general section of the annual report, 2017 was another challenging year for Siegfried from an operational point of view. As in previous years, the Board of Directors, along with the CEO and the Executive Committee, set ambitious goals for the company, designed to ensure a long-term increase in enterprise value. At Group level, the relevant targets (EBITDA and ROCE) were slightly exceeded overall, and this is reflected in the target achievement figures. The strategy of deliberately and systematically linking remuneration to performance (i.ew. short-term, performance-based incentives are only distributed if operational targets are met) is clearly effective. In addition to dealing with regular remuneration issues, in 2018 the Remuneration Committee will devote special attention to corporate culture, leadership and talent management measures and initiatives spearheaded by the Executive Committee, as the Board of Directors is convinced that these factors contribute substantially to business success.

1. Competencies and Tasks of the Remuneration Committee

In accordance with the articles of incorporation, the Remuneration Committee is composed of at least two members of the Board of Directors, who are each elected by the General Meeting for a one-year term of office. Reto Garzetti (Chair), Dr. Martin Schmid and Ulla Schmidt were elected to the Remuneration Committee for the 2017/2018 term of office. The Remuneration Committee shall constitute itself; it may appoint a chair from among its members.

The Remuneration Committee supports the Board of Directors in

- defining and reviewing the remuneration policy and principles;
- defining and reviewing the targets and target levels for short and long-term, performance-based remuneration elements and evaluating target achievement;
- preparing recommendations on Board and Executive Committee members' remuneration for the attention of the General Meeting.

Depending on the agenda, the Chairman of the Board, the CEO, and the Global Head HR may also join meetings of the Remuneration Committee. The Chairman of the Board, the CEO, and/or the Global Head HR must withdraw during consideration of agenda items relating directly to them. After every Remuneration Committee meeting, a set of minutes and a summary of topics discussed, decisions taken and recommendations made is sent to the Board of Directors. The Remuneration Committee convenes at least twice annually. During the reporting year, the Remuneration Committee convened three times for ordinary meetings and also held other discussions.

Topics considered per Remuneration Committee meeting in 2017

Topics	Winter	Summer	Autumn
General subjects			
Personnel changes in Senior Management group	•	•	•
Update HR projects	•	•	•
Update pension funds	•	•	•
Talent review			•
Governance			
Preparation of remuneration report (incl. analysis on remuneration disclosure)		•	•
Approval of remuneration report	•		
Preparation "Say-on-Pay" vote for upcoming GM	•		
Remuneration of Board of Directors			
Setting remuneration for next term of office (incl. amount to be approved at GM)	•		
Remuneration of Executive Committee			
Signing off target achievement for previous year and approving short-term, performance-based remuneration (STI) (incl. amount to be approved at GM)	•		
Setting grant date for long-term, performance-based remuneration (LTI)	•		
Setting LTIP remuneration amount for current financial year (incl. amount to be approved at GM)	•		
Setting target remuneration for following financial year (incl. amount to be approved at GM)	•		
Setting STI target values for next financial year			•
Setting LTIP target values for next performance period			•

2. Procedures for Setting and Approving Remuneration

Regular Benchmarking and External Consultants

In keeping with normal industry practice, Siegfried regularly benchmarks internal remuneration data at all locations against those of other multinational companies in order to ensure competitiveness and attractiveness on the labor market. Our goal is to ensure that employees who meet the academic, performance and behavioral criteria associated with a given position receive a total remuneration package that is in line with the benchmark market median for similar positions in comparable companies. For this purpose, Siegfried works with independent external remuneration specialists.

The remuneration packages of Siegfried's Executive Committee and Board members are regularly reviewed – usually every two to three years – and compared with data from executive studies, specific benchmark data, and disclosures of companies that are comparable in terms of size and structure, business mix, model, and geographical structure; the extent to which the selected companies compete with Siegfried for the same highly qualified employees is also factored into the equation. The remuneration packages of Siegfried's Executive Committee were reviewed in 2017, on the basis of an executive study undertaken in collaboration with an external partner (Mercer). The executive study contains benchmark data from over 100 Swiss-headquartered companies with a global reach/client base. 25% of the benchmark group consists of companies from directly related sectors (pharmaceuticals/chemicals and medtech); the remaining 75% consists of a cross-section of companies of a comparable size and with a similar scope (15% consumer goods, 10% banking/insurance, and 50% other manufacturers and non-manufacturing industrial corporations).

Process for Setting and Approving Remuneration

Remuneration is set and approved as follows:

Process for defining and approving remuneration	CEO	Remuneration Committee	Board of Directors	General Meeting
Principles of remuneration for the Board of Directors		Makes proposal	Proposes a motion	Enacts
Remuneration model for CEO (incl. short- and long-term, performance-based remuneration in the form of cash or shares)		Makes proposal	Proposes a motion	Enacts
Remuneration model for the Executive Committee (incl. short- and long-term, performance-based remuneration in the form of cash or shares)	Makes proposal	Recommends	Proposes a motion	Enacts
Maximum total remuneration for the Board of Directors for the term of office lasting until the next Ordinary General Meeting		Makes proposal	Enacts	Approves
Maximum total remuneration for the fixed remuneration of the Executive Committee (incl. the CEO) for the following financial year	Makes proposal	Recommends	Enacts	Approves
Maximum total short-term, performance-based remuneration of the Executive Committee (incl. the CEO) for the previous financial year	Makes proposal	Recommends	Enacts	Approves
Maximum total long-term, performance-based remuneration of the Executive Committee (incl. the CEO) for the current financial year	Makes proposal	Recommends	Enacts	Approves
Principles of share and profit-sharing plans		Makes proposal	Enacts	
HR and remuneration policy		Makes proposal	Enacts	

The following remuneration elements were approved at the General Meeting on April 20, 2017:

- Maximum total for overall remuneration of the Board of Directors for the 2017/2018 term of office (CHF 1 450 000)
- Maximum total for the fixed overall remuneration of the Executive Committee for 2018 (CHF 3 700 000)
- Short-term, performance-based remuneration for the Executive Committee for 2016 (CHF 1 231 136)
- Long-term, performance-based remuneration for the Executive Committee for 2017 (CHF 3 080 000).

Likewise, the proposals relating to the structure described above will be put before the General Meeting on April 20, 2018.

3. Principles of Remuneration Policy and Remuneration Elements

Principles of Remuneration Policy

Recruiting, developing, and retaining qualified and talented managers and professional specialists are crucial for Siegfried's success. The remuneration structure and its elements are geared towards achieving this goal and are based on the following fundamental objectives:

- ensure an effective link between individual performance and sustainable enterprise value for Siegfried's shareholders;
- reward individual performance, competence, and desired behaviors in line with Siegfried's corporate values and leadership principles;
- create a sustainable performance culture by implementing performance-related remuneration that is contingent on the Group's success;
- set effective incentives by balancing long and short-term remuneration elements;
- act fairly and transparently when making and communicating remuneration-related decisions;
- ensure market competitiveness;
- comply with all legal and regulatory requirements relating to remuneration including, in particular, those regarding minimum wages, equal pay for men and women, and provisions linked to the disclosure and approval of remuneration for Siegfried's most senior decision-making bodies;
- ensure that dilution resulting from performance/share-based remuneration does not exceed 1.0% per year (long-term average).

	Element	Instrument	Purpose	Criteria	Target Group
Fixed remuneration	Annual base salary	Monthly cash payment	Attracting and retaining employees	Requirements of the job, employee experience and ability, job performance, local market conditions	All employees
Performance-based remuneration	Short-term, performance-based remuneration (STIP)	Annual cash payment	Rewarding employees' performance and contribution to enterprise value	Achieving corporate, functional, and individual targets in a given financial year	All employees (excluding Board members)
	Long-term, performance-based remuneration (LTIP)	Annual grant of performance share units (PSUs)	Ensuring a sustainable increase in enterprise value; aligning the interests of shareholders and management	Achieving corporate targets at the end of the three-year performance period	Management (excluding Board members)
Additional benefits	Additional benefits	Pension plan and fringe benefits	Safeguarding employees and their dependents in old age or in the event of illness	Local market conditions, laws and other regulations	All employees
	Employee Share Purchase Plan (ESPP)	Employee participation plan, which allows employees to purchase Siegfried shares at a discounted price	Strengthening employees' interest in and loyalty to the company; enabling employees to take a stake in the company's success via a potential share price increase	Size of initital investment, share price development	Employees below management (excluding LTIP participants)

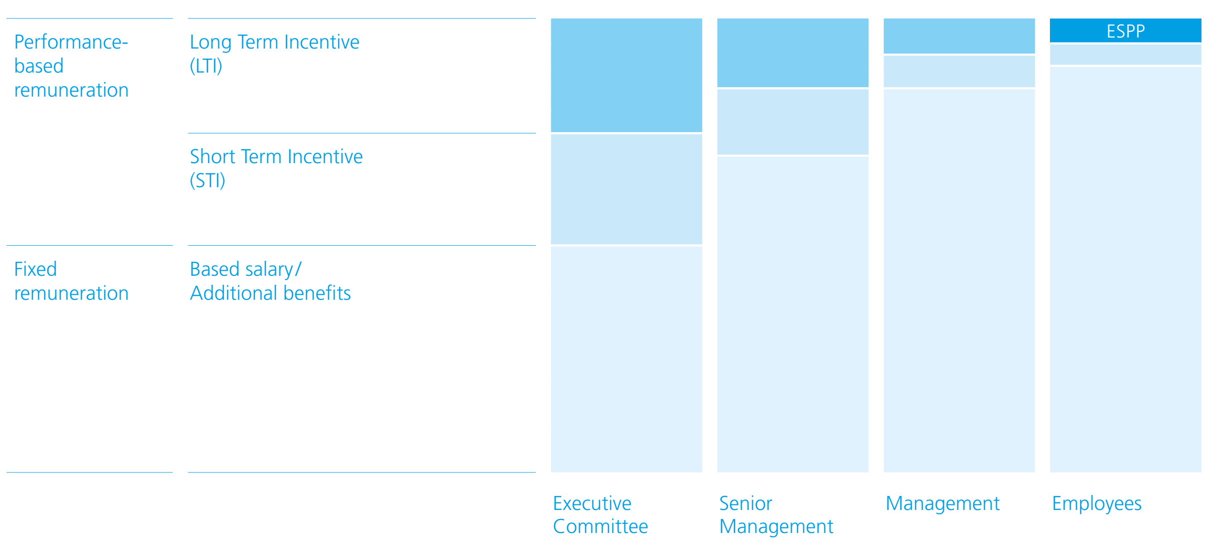
Remuneration Elements

Siegfried's remuneration model is designed as a package consisting of fixed and performance-based elements.

An employee's total remuneration mix is contingent on his/her functional level, function, responsibilities, experience, and location. In the reporting year, employee remuneration was composed of the following elements:

1. Fixed remuneration – annual base salary
2. Performance-based remuneration
   (i) Short-term, performance-based remuneration (Short Term Incentive Plan, STIP)
   (ii) Long-term, performance-based remuneration (Long Term Incentive Plan, LTIP)
3. Additional remuneration elements
   (i) Additional benefits, in line with market practice
   (ii) Employee Share Purchase Plan (ESPP)

The performance-based share of remuneration depends on an individual's functional level; the higher the level, the larger the share



Schematic representation

Fixed Remuneration – Annual Base Salary

Each employee receives an annual base salary that is linked to the requirements of the position, the individual's experience, capabilities and performance, and local market conditions. Siegfried aims to ensure that the base salary of employees who meet the expected performance and qualification parameters in full corresponds to the market median for comparable positions in the chemicals/pharmaceuticals industry. Annual adjustments are made individually in light of internal and external benchmarks regarding the competitiveness of salaries, employee performance, and the overall economic health of the company. Salary adjustments only occur automatically in cases where they are required by law. Typically, no provision is made for base salary adjustments in the course of a given year.

Short-Term, Performance-Based Remuneration (Short Term Incentive Plan, STIP)

The Short Term Incentive Plan (STIP) allows Siegfried to customize employee incentives across all functional levels. The Short Term Incentive (STI) rewards an individual's performance and contribution to enterprise value, based on a retrospective consideration at the end of each financial year; it is paid in cash (at nominal value) in the following year.

The performance-based remuneration paid out under the STIP is contingent on the achievement of corporate, functional, and individual targets. A personal target bonus assuming 100% target achievement ("target STI") is defined for each plan participant. The target STI depends on the requirements of the plan participant's position as well as on related responsibilities, functional level, and local market conditions. The target categories and associated weighting applicable to each employee depend on the employee's functional level and are defined in a target matrix.

Under the STIP, targets are set annually for one financial year (performance period). Responsibility for defining STIP targets depends on the functional level of the employee, and is assigned as follows:

Level	Corporate targets Setting and approval of targets and target achievement	Functional targets Setting and approval of targets and target achievement	Individual targets Setting and approval of targets and target achievement
CEO	Board of Directors	n. a.	Chairman of the Board of Directors
Executive Committee		CEO	CEO
Senior Management		Executive Committee	Line Manager
Management			
Employees			

As a general rule, the corporate targets used are the key operational and strategic performance indicators in the chemical industry: EBITDA (earnings before interest, taxes, depreciation and amortization) and ROCE (return on capital employed). Each year, the Board of Directors sets and approves the target values based on the figures in Siegfried's medium-term planning (5-year horizon) and on the budget figures defined for the following year. The annually defined EBITDA and ROCE figures are geared to achievement of the long-term EBITDA and ROCE goals which also provide the basis for the LTIP.

Functional targets (quantitative and qualitative) are derived from Siegfried's strategy, operational priorities, and corporate targets and are based on the overall performance of a given function. They are defined in a top-down process by the Executive Committee and are broken down incrementally into individual departments, locations, and teams. Functional targets are, for the most part, predefined KPIs related to steering the operational business and achieving corporate targets. Typical key indicators include net working capital (defined as a percentage of sales revenue), safety statistics per location (number of notifiable events as per international OHSA [Occupational Safety and Health Administration] standards), adherence to clients' quality and delivery specifications (OTIF: on time in full), and active management of overdues.

Individual targets relate to the performance of the employee and usually take the form of project, leadership, or behavioral targets which are agreed bilaterally between the line manager and the employee.

At the end of the one-year performance period, target achievement of the corporate, functional, and individual targets is assessed. The achievement scale ranges from 0 to maximum 200% for corporate targets, and from 0 to maximum 150% for functional and individual targets. An individual's overall target achievement is derived from the weighted sum of target achievements. The individual STI is calculated by multiplying the target STI amount by the overall target achievement.

Sample calculation of target achievement for a member of middle management with a target STI of 10% of fixed annual base salary:

Target category	Weighting of target category	Target achievement	Weighted target achievement
Corporate targets	30%	90%	27%
Functional targets	40%	125%	50%
Individual targets	30%	110%	33%
Overall target achievement			**110%**

Actual STI: target STI (10%) x overall target achievement (110%)
= 11% of annual base salary.

In 2017, the achievement of corporate targets – which apply at all locations – was 121.5% (EBITDA 143.0%; ROCE 100.0%).

Long-Term, Performance-Based Remuneration (Long Term Incentive Plan, LTIP)

The Long Term Incentive Plan (LTIP) is a long-term, performance-based remuneration element aimed at ensuring a sustainable increase in enterprise value, an alignment of interests between plan participants and shareholders, and the retention of management with the company. The LTIP is open to members of the Executive Committee and management as well as to employees selected annually by the Board of Directors and Executive Committee whose contribution has a substantial influence on Siegfried's long-term development. The LTIP therefore links a portion of the Executive Committee's and management's performance-based remuneration to the long-term development of the Group.

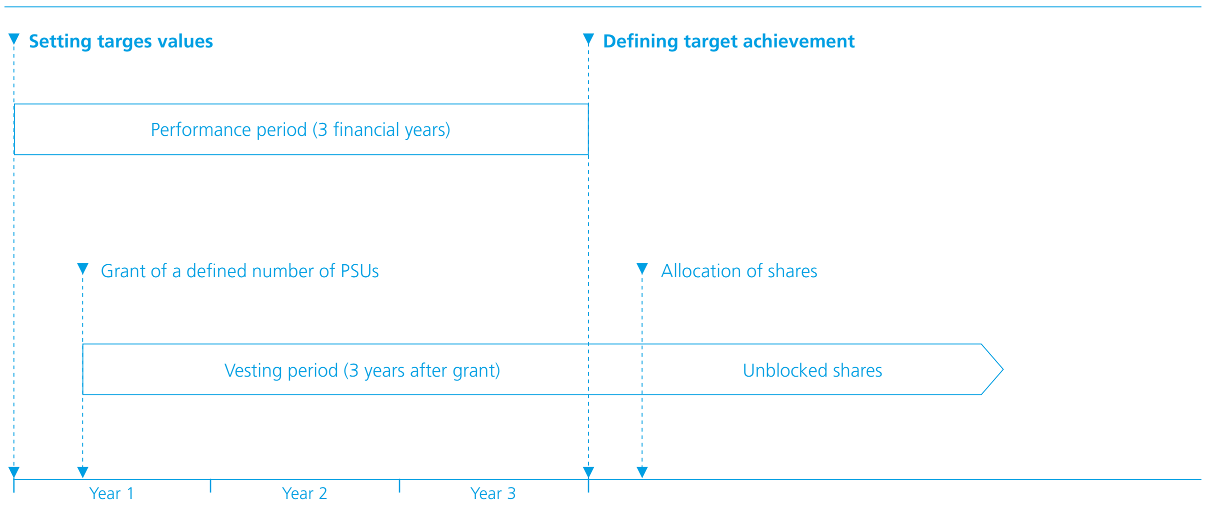
Every year, as part of their total remuneration package, plan participants are granted a fixed number of Performance Share Units (PSUs); the number of PSUs is separately defined for each individual plan member by the Board of Directors. Each PSU is a non-binding entitlement to a maximum of two Siegfried shares depending on the company evolving satisfactorily and on the achievement of pre-defined targets during the three-year performance period. Where applicable, a transfer of shares takes place after a three-year vesting period (three-year period starting on the date of the actual grant of the PSUs and ending on the same day three calendar years later).

For the purposes of Siegfried's LTIP, long-term growth in enterprise value is gauged according to the compound annual growth rate (CAGR) of the capital market KPI "total shareholder return" (TSR), and the operational KPIs EBITDA and ROCE. The KPIs are selected and defined with the aim of sustainably increasing enterprise value and aligning the interests of management and shareholders.

The Board of Directors has defined a CAGR of 8% as a long-term (100%) target value for TSR. The Board of Directors defines target EBITDA and ROCE values annually for each new PSU grant, taking account of Siegfried Group's five-year medium-term planning.

Target achievement of TSR CAGR for a performance period is set according to the "relevant market price at inception" (the average closing price of the Siegfried share on the SIX Swiss Exchange over the last twelve months' stock trading days up to the inception date of the relevant performance period) and the "relevant market price at closing" (the average closing price of the Siegfried share on the SIX Swiss Exchange over the last twelve months' stock trading days up to the closing date of the relevant performance period). Both the relevant market price at inception and at closing are adjusted for corporate events such as payment of dividends, payouts from the capital contribution reserve, capital increases, (reverse) share splits, and changes to the nominal value of shares.

EBITDA target achievement following a performance period is defined as cumulative EBITDA over the three-year performance period. The key parameters for calculating ROCE are EBITDA and capital employed during the last year of a given performance period.



KPIs	Key performance indicator and definition	Setting target values	Target value	Weighting
Capital market KPI	CAGR of total shareholder return (TSR) over the three-year performance period		TSR CAGR of 8% (minimum level: 4%, maximum level: 12%)	70%
Operational KPI	Cumulative EBITDA over a given three-year performance period	The Board of Directors reviews and sets target values annually for each new PSU grant	Set annually, taking into account the company's medium-term planning	15%
	ROCE of the last year in the three-year performance period		Set annually, taking into account the company's medium-term planning	15%

The number of shares transferred per PSU to the plan participant at the end of the three-year vesting period depends on the achievement level (performance factor) for TSR CAGR target values and operational targets set by the Board for the relevant period. In calculating the performance factor, target achievement for desired TSR CAGR receives a 70% weighting and target achievement for desired operational targets receives a 30% weighting.

The performance factor may have a value between 0 and 2. If targets are reached (100% achievement), the performance factor is given a value of 1 and the plan participant receives one (1) share per PSU. If targets are exceeded, the plan participant may receive a maximum of two (2) shares per PSU. The value of shares allocated at the end of the vesting period is determined according to the market price at the time of allocation. If the minimum targets are not reached, the PSUs lapse without compensation.

Furthermore, shares may only be transferred following the three-year vesting period provided the plan participant has a valid employment relationship with the company (the point in time at which notice of contract termination is given, not the date on which the contract ends, is the relevant criterion here).

In order to ensure a sustainable increase in enterprise value and an alignment of interests between the Executive Committee/management and Siegfried's shareholders, LTIP participants must meet certain equity participation requirements. Participants must thus hold a certain number of Siegfried shares for the duration of their participation in the plan. The number of shares to be held is twice the number of PSUs granted under the LTIP at the last grant date. New employees joining the plan must meet these equity participation requirements within a defined period (of maximum three years) by using their own funds to invest in Siegfried shares.

In March 2017, for the first time, shares from the LTIP launched on 01.01.2014 were transferred. The performance factor for the 2014–2016 performance period was 152% (TSR CAGR: 200%; EBITDA: 82%; ROCE: 0%). 1.52 shares were thus granted per PSU. On 16.03.2017, based on a total of some 25 076 PSUs originally granted, 30 638 shares were transferred to Siegfried's Executive Committee and management. During the vesting period, 4426 PSUs lapsed without compensation and 502 PSUs were, as per the relevant internal regulations, transferred early (on the employee's exit date due to retirement or redundancy).

	Number of allocated PSUs 2014[1]	Number of granted shares 2017[3]
CEO	3 600	5 472
Executive Management	9 050	10 336
Senior Management	5 825	7 372
Management	5 332	5 980
Discretionary Group[2]	1 269	1 478
Total	**25 076**	**30 638**

[1] Includes PSUs that lapsed due to exits during the vesting period or PSUs that, as per internal regulations, were converted into shares on the relevant exit date due to retirement/redundancy.
[2] Each year, the Board of Directors and Executive Management at their discretion jointly nominate staff members below management level to participate in the plan.
[3] Number of transferred shares based on outstanding PSUs at the time of transfer.

The following table provides an overview of granted and outstanding entitlements (PSUs) from the LTIP.

Overview of Outstanding PSUs

	Allocation 2015 (Vesting period 2015–2018)	Allocation 2016 (Vesting period 2016–2019)	Allocation 2017 (Vesting period 2017–2020)
Number of PSUs granted	**25 409**	**29 757**	**35 180**
CEO	3 600	3 600	3 600
Executive Committee	8 250	8 400	9 177
Management	13 559	17 757	22 403
Outstanding PSUs as per December 31, 2017	**19 472**	**23 375**	**31 418**
CEO	3 600	3 600	3 600
Executive Committee	5 900	6 050	8 277
Management	9 972	13 725	19 541
Lapsed PSUs as per December 31, 2017[1]	**5 656**	**6 180**	**3 720**
CEO	0	0	0
Executive Committee	2 350	2 350	900
Management	3 306	3 830	2 820
Shares granted from PSUs as per December 31, 2017[2]	**281**	**202**	**42**
CEO	0	0	0
Executive Committee	0	0	0
Management	281	202	42

[1] Entitlement lapsed due to termination of employment relationship by employee or Siegfried.
[2] Pro rata share transfer based on 100% target achievement due to termination of employment on retirement/redundancy.

Additional Benefits

Additional benefits include, first and foremost, retirement pensions and insurance to cover staff in the event of disability, death, accident or illness. The form and amount of such additional benefits are governed by local market conditions and legislation.

In Switzerland and abroad, Siegfried operates a number of insurance plans that cover staff against the risks of death, disability, and old age. The amount of pension benefits depends on the employee's number of insured years, age, insured salary, and accumulated capital.

In Switzerland, a supplementary defined-contribution pension plan is available for individuals whose income exceeds a given threshold. All members of the Executive Committee and some members of Senior Management are enrolled in this pension plan.

Both employee and employer contribute to the aforementioned pension plans.

The assets of the funded pension plans are held in separate foundations or by insurers and cannot flow back to the employer.

Moreover, accrual-funded direct commitments are in place in Germany; these are recognized on the balance sheet as pension liabilities. The relevant accruals are revalued each year.

Plans also exist for anniversaries or other benefits linked to years of service.

Employee Share Purchase Plan (ESPP)

The Employee Share Purchase Plan (ESPP) allows employees who are not eligible to participate in the LTIP to purchase Siegfried shares at a discounted price. Shares may be purchased once a year (in April) at a discount of 30% versus the defined purchase price and are subject to a restriction period of three years from the date of purchase. The defined purchase price is equivalent to the average closing price of the Siegfried share on the SIX Swiss Exchange over the twelve months' stock trading days prior to the purchase. Employees may invest up to 10% of their annual base salary in the ESPP. The ESPP has been introduced at all locations where the local legal and tax frameworks allow it to be implemented.

In addition to regular ESPP participants, new members of management may participate, to a limited extent, in the ESPP in order to acquire the number of shares needed to satisfy the LTIP equity participation requirement. Participation over and above this is not permitted, however.

	Number of participants	Number of purchased/issued shares	Discounted purchase price per share	End of restriction period
2017	315	9 783	CHF 140.15	30.04.2020
2016	228	8 431	CHF 122.61	30.04.2019

4. Remuneration of the Board of Directors

The remuneration model for members of the Board of Directors is geared to recruiting and retaining experienced and motivated individuals to carry out the duties of a Board member. Board members receive a fixed cash and a share-based component (fixed number of shares). By incentivizing Board members to further the success of the company and increase enterprise value over the long term, the share component ensures that the interests of Siegfried's directors and shareholders are aligned. Members of the Board of Directors do not receive any performance-based remuneration.

The cash component consists of a base fee for the Board mandate, and fees for individual functions as Vice-Chairman of the Board of Directors or as Chair of a Committee of the Board. From the 2017/2018 term of office, a fee for participating in a Board committee was implemented (details below). In addition, for each term of office, Board members receive an expense allowance covering all incidental expenses relating to their professional duties.

Shares are allocated at the beginning of a Board member's term of office following the approval of directors' remuneration by the Ordinary General Meeting. As from the date of allocation these shares are subject to a three-year restriction period. Should a Board member give notice during the current term of office, he/she undertakes to transfer the shares back to Siegfried on a pro rata basis.

The remuneration model described above and the relevant remuneration rates were introduced for the 2014/2015 term of office. In 2016, the first three-yearly review of this model was conducted. As a result of positive share price developments, the total remuneration of members of the Board of Directors has increased in recent years and the originally stipulated remuneration mix (50% cash, 50% shares) has shifted in favor of the share component. The Board of Directors has decided to retain the current remuneration model with its cash and share components, but to strengthen incentives to improve share price performance and adjust the overall amount. Both the cash and the share components have therefore been reduced, whilst at the same time the weighting of the share component has been increased. Furthermore, the compensation for chairing, or participating in a Board committee has been restructured, although the total amount spent remains unchanged. Remuneration for chairing a committee has been halved and remuneration for participating in a committee has been introduced.

The revised remuneration model and rates were presented and approved at the General Meeting 2017 and apply as per the 2017/2018 term of office. The Board of Directors will continue to regularly review – and if necessary adjust – both the level and structure of remuneration in the future.

The following table shows remuneration rates for the 2017/2018 term of office:

Base Fee	Cash component	Lump sum expense allowance	Number of restricted shares	Actual number of shares allocated for 2017/2018 term of office[1]
Chairman of the Board of Directors	140 000	20 000	900	856
Vice-Chairman of the Board of Directors	70 000	10 000	450	428
Other members of the Board of Directors	50 000	10 000	450	428
Fees for individual functions				
Chair of Committee	10 000			
Member of Committee	5 000			

[1] Number of shares allocated was reduced in order to meet approved maximum total for overall remuneration of the Board of Directors for the 2017/2018 term of office.

The following tables show remuneration paid/allocated in the reporting year and the prior year. Remuneration of the Board of Directors is shown by financial year.

Remuneration Paid to the Board of Directors in the 2017 Reporting Year (Audited)

Board of Directors	Cash remuneration	Lump sum expense allowance	Total cash	Share-based remuneration 2017[1]	Employer contributions to social security[2]	**Total remuneration financial year 2017**
Andreas Casutt (Chairman)	146 666	20 000	166 666	223 203	18 524	408 393
Martin Schmid (Vice-Chairman)	73 333	10 000	83 333	111 601	9 680	204 614
Colin Bond (Member; Chair of Audit Committee)	66 667	10 000	76 667	111 601	9 311	197 579
Wolfram Carius[3] (Member; Chair of Strategy Committee)	66 667	10 000	76 667	111 601		188 268
Reto Garzetti (Member; Chair of Remunartion Committee)	66 667	10 000	76 667	111 601	9 331	197 599
Ulla Schmidt[3] (Member)	60 000	10 000	70 000	111 601		181 601
Total (serving members on December 31, 2017)	**480 000**	**70 000**	**550 000**	**781 209**	**46 846**	**1 378 055**
Thomas Villiger[4] (Vice-Chairman; Chair of Remuneration Committee)	33 333	3 333	36 666	30 567	2 939	70 172
Total (on December 31, 2017, including former members)	**513 333**	**73 333**	**586 666**	**811 776**	**49 785**	**1 448 227**

The remuneration figures shown in the table are gross amounts and were booked according to the accrual principle (4/12 for the 2016/2017 term of office; 8/12 for the 2017/2018 term of office).
[1] Fixed number of shares as part of Board of Directors remuneration; valued as per closing share price on date of allocation.
[2] Incl. social security deductions on the tax value of the pro rata share component of the fixed Board of Directors remuneration (allocated in 2017) for the 2017/2018 term of office.
[3] Exempted from Swiss social security obligation (fulfills social security obligations in principal country of employment).
[4] Thomas Villiger did not put himself up for re-election as member of the Siegfried Board of Directors for the 2017/2018 term of office.

In 2017, no remuneration was paid to the members of the Board of Directors other than that presented above. During the 2017/2018 term of office, Board of Directors remuneration is projected to total CHF 1.44 million; the figure approved at the General Meeting was CHF 1.45 million.

Remuneration Paid to the Board of Directors for the 2017/2018 Term of Office (Projection)

Board of Directors	Cash remuneration	Lump sum expense allowance	Total cash	Share-based remuneration term of office[1]	Employer contributions to social security[2]	**Total remuneration term of office 2017/2018**
Andreas Casutt (Chairman)	140 000	20 000	160 000	243 104	18 432	421 536
Martin Schmid (Vice-Chairman)	80 000	10 000	90 000	121 552	10 272	221 824
Colin Bond (Member; Chair of Audit Committee)	60 000	10 000	70 000	121 552	9 066	200 618
Wolfram Carius[3] (Member; Chair of Strategy Committee)	60 000	10 000	70 000	121 552		191 552
Reto Garzetti (Member; Chair of Remuneration Committee)	70 000	10 000	80 000	121 552	9 688	211 240
Ulla Schmidt[3] (Member)	60 000	10 000	70 000	121 552		191 552
Total (term of office 2017/2018, serving members)[4]	**470 000**	**70 000**	**540 000**	**850 864**	**47 458**	**1 438 322**
Approved by the General Meeting for 2017/2018 term of office						**1 450 000**

The remuneration figures shown in the table apply to the 2017/2018 term of office (May 2017–April 2018).
[1] Fixed number of shares as part of Board of Directors remuneration; Value per share as approved by the General Meeting 2017 (CHF 284).
[2] Incl. social security deductions on the tax value of the share component of the fixed Board of Directors remuneration (allocated in 2017) for the 2017/2018 term of office.
[3] Exempted from Swiss social security obligation (fulfills social security obligations in principal country of employment).
[4] Projected total until the end of the 2017/2018 term of office.

Remuneration Paid to the Board of Directors in the 2016 Reporting Year (Audited)

Board of Directors	Cash remuneration	Lump sum expense allowance	Total cash	Share-based remuneration 2016[1]	Employer contributions to social security[2]	**Total remuneration financial year 2016**
Andreas Casutt (Chairman)	160 000	20 000	180 000	173 733	18 169	371 902
Thomas Villiger (Vice-Chairman; Chair of Remuneration Committee)	100 000	10 000	110 000	86 867	9 512	206 379
Colin Bond (Member; Chair of Audit Committee)	80 000	10 000	90 000	86 867	9 423	186 290
Wolfram Carius[3] (Member; Chair of Strategy Committee)	80 000	10 000	90 000	86 867		176 867
Reto Garzetti (Member)	60 000	10 000	70 000	86 867	8 233	165 100
Martin Schmid (Member)	40 000	6 667	46 667	61 133	5 665	113 465
Ulla Schmidt[3] (Member)	40 000	6 667	46 667	61 133		107 800
Total (serving members on December 31, 2016)	**560 000**	**73 334**	**633 334**	**643 467**	**51 002**	**1 327 803**

The remuneration figures shown in the table are gross amounts and were booked according to the accrual principle (4/12 for the 2015/2016 term of office; 8/12 for the 2016/2017 term of office).
[1] Fixed number of shares as part of Board of Directors remuneration; valued as per closing share price on date of allocation.
[2] Incl. social security deductions on the tax value of the pro rata share component of the fixed Board of Directors remuneration (allocated in 2016) for the 2016/2017 term of office.
[3] Exempted from Swiss social security obligation (fulfills social security obligations in principal country of employment).

5. Remuneration of Executive Committee Members

The Executive Committee's remuneration is comprised of a fixed base salary in line with the market, a short-term, performance-based component (STI), a long-term, performance-based component (LTI), and additional benefits. The overall value of remuneration packages as well as individual remuneration components are regularly benchmarked and, if necessary, adjusted (see also section 2).

The following table summarizes the Executive Committee's remuneration in 2017 and indicates the highest individual remuneration for services rendered in the reporting year (CEO). The remuneration is broken down into the components listed above: fixed base salary, short and long-term, performance-based remuneration, social security expenditure and pension plan expenditure. In 2017, the CEO's total remuneration was made up of one-third fixed base salary and two-thirds performance-based components (2016: 45% / 55%) while the ratio for the Executive Committee averaged 40% to 60% (2016: 55%/45%).

In 2017, no remuneration was paid to the Executive Committee members other than that presented above. Fixed remuneration paid in 2017 (CHF 3.13 million) did not execeed the CHF 3.7 million approved at the General Meeting 2016.

The value of the PSUs granted to the CEO and other members of the Executive Committee for the three-year performance period January 1, 2017 – December 31, 2019 under the LTIP is reported once and in full as Executive Committee remuneration in 2017. In 2017, the CEO and the Executive Committee were granted a total of 12 777 PSUs. At the time of allocation, an external valuation expert used best practice methods to determine the fair value of one PSU as CHF 211.62. This fair value at the time of allocation is the amount based on which remuneration in the reporting year and relevant social insurance contributions due are calculated. In the event of a share transfer, the actual income received by Executive Committee members at the end of the vesting period may deviate from the fair value assigned to the PSUs on allocation depending on LTIP target achievement (the performance factor) and the share price at the time of transfer.

In order to ensure full transparency, the PSUs allocated in the reporting year are shown as totals in the following table of remuneration paid to the Executive Committee. In the Consolidated Financial Statements, however, LTIP expenses are distributed over the three-year performance period.

Remuneration Paid to the CEO and Executive Committee in the 2017 Reporting Year (Audited)

CEO and Executive Committee	Fixed remuneration in cash	Short-term, performance-based remuneration (STI) in cash[1]	Total cash payments	Long-term, performance-based remuneration (LTI) in PSUs[2]	Employer contributions to social security[3]	Employer contributions to pension fund	**Total remuneration 2017[4]**
Highest individual remuneration: Rudolf Hanko	570 000	436 991	1 006 991	761 832	116 868	94 596	1 980 287
Other Executive Committee members[5]	1 981 846	921 901	2 903 747	1 942 037	316 672	273 036	5 435 492
Total (at December 31, 2017)	**2 551 846**	**1 358 892**	**3 910 738**	**2 703 869**	**433 540**	**367 632**	**7 415 779**

The remuneration figures shown in the table are gross and are based on the accrual principle.
[1] To be paid out in April 2018 after approval at General Meeting.
[2] Includes PSUs granted in 2017 for plan period 2017–2019; PSUs are valued as per external consultant ALGOFIN (CHF 211.62 per PSU).
[3] Includes an assumed 7% social insurance contribution on both the 2017 STI and PSUs granted in 2017.
[4] Doesn't include fringe benefits (REKA money, child and family allowances, employer contributions to BU/NBU) in the amount of approximately CHF 24 000.
[5] Michael Hüsler left the company on August 20, 2017; remuneration reduced pro rata (exception LTIP: no pro rata reduction; however, granted PSUs lapse due to exit).

Remuneration Paid to the CEO and Executive Committee in the 2016 Reporting Year (Audited)

CEO and Executive Committee	Fixed remuneration in cash	Short-term, performance-based remuneration (STI) in cash[1]	Total cash payments	Long-term, performance-based remuneration (LTI) in PSUs[2]	Employer contributions to social security[3]	Employer contributions to pension fund	**Total remuneration 2016[4]**
Highest individual remuneration: Rudolf Hanko	570 000	335 160	905 160	372 672	82 500	95 250	1 455 582
Other Executive Committee members[5]	2 074 571	815 434	2 890 005	869 568	239 832	292 353	4 291 758
Total (at December 31, 2016)	**2 644 571**	**1 150 594**	**3 795 165**	**1 242 240**	**322 332**	**387 603**	**5 747 340**

The remuneration figures shown in the table are gross and are based on the accrual principle.
[1] To be paid out in April 2017 after approval at General Meeting.
[2] Includes PSUs granted in 2016 for plan period 2016–2018; PSUs are valued as per external consultant ALGOFIN (CHF 103.52 per PSU).
[3] Includes an assumed 7% social insurance contribution on both the 2016 STI and PSUs granted in 2016.
[4] Doesn't include fringe benefits (REKA money, child and family allowances, employer contributions to BU/NBU) in the amount of approximately CHF 22 000.
[5] Walter Kittl left the company on October 31, 2016; remuneration reduced pro rata (exception LTIP: no pro rata reduction; however, granted PSUs lapse due to exit).

PSUs Allocated to the CEO and Executive Committee in the 2017 Reporting Year

						Value at 100% target achievement			
Plan period	Executive Committee	PSU grant date	Performance period	Vesting period	Vesting date	PSUs allocated[1]	Value of allocated PSUs[2]	Social insurance contributions on value of PSUs[3]	Potential target achievement
2017–2019	CEO	16.03.2017	01.01.2017–31.12.2019	16.03.2017–16.03.2020	16.03.2020	3 600	761 832	53 328	0%–200%
	Other members of the Executive Committee[1]					9 177	1 942 037	135 943	
Total						**12 777**	**2 703 869**	**189 271**	
Total cost to enterprise							**2 893 140**		
Approved sum by General Meeting[4]							**3 080 000**		

[1] Incl. Michael Hüsler's PSU allocation; as per the LTIP Regulations, these lapse without remuneration due to his exit.
[2] PSUs are valued as per external consultant ALGOFIN (CHF 211.62 per PSU).
[3] Includes an assumed 7% social insurance contribution.
[4] Approval of PSUs allocated in the financial year 2017 for the performance period 2017–2019 at the General Meeting 2017.

6. Shareholdings of the Board of Directors and Executive Committee at the End of the Reporting Year

Shareholdings of Board Members

The following table lists shareholdings of Board members and affiliated persons.

	December 31, 2017		December 31, 2016	
Board of Directors	Total shares	of which restricted	Total shares	of which restricted
Andreas Casutt (Chairman)	18 000	2 856	17 500	3 000
Martin Schmid (Vice-Chairman)	928	928	500	500
Colin Bond (Member)	2 428	1 428	2 000	1 500
Wolfram Carius (Member)	1 928	1 428	1 500	1 500
Reto Garzetti (Member)	7 462	1 428	14 034	1 500
Ulla Schmidt (Member)	928	928	500	500
Total (serving members)	**31 674**	**8 996**	**36 034**	**8 500**
Thomas Villiger[1]			5 735	1 500
Total (including former members)	**31 674**	**8 996**	**41 769**	**10 000**
In % of share capital	**0.75%**	**0.21%**	**1.00%**	**0.24%**

[1] Thomas Villiger did not put himself up for re-election as member of the Siegfried Board of Directors for the 2017/2018 term of office.

Shareholdings of Executive Committee Members

The following table lists shareholdings of Executive Committee members and affiliated persons.

	December 31, 2017		December 31, 2016	
Executive Committee	Total shares	of which restricted	Total shares	of which restricted
Rudolf Hanko (CEO)	75 000	0	69 000	2 272
Reto Suter (CFO)[1]	500	0		
René Imwinkelried (Global Head Technical Operations)	9 478	0	10 122	1 223
Arnoud Middel (Global Head HR)	3 000	0	4 300	1 032
Marianne Späne (Global Head BD & Sales)	18 576	0	19 416	1 416
Wolfgang Wienand (Chief Scientific & Strategy Officer)	10 844	0	11 716	1 098
Total (serving Executive Committee members)	**117 398**	**0**	**114 554**	**7 041**
Michael Hüsler (CFO)[2]			13 500	1 062
Total (including former Executive Committee members)	**117 398**	**0**	**128 054**	**8 103**
In % of share capital	**2.79%**	**0.00%**	**3.07%**	**0.19%**

[1] Reto Suter joined the company on May 1, 2017.
[2] Michael Hüsler left the company on August 20, 2017.

7. Contractual Agreements, Loans, Credits, and Additional Contributions

The employment contracts of Executive Committee members and the CEO are open-ended and provide for a notice period of six months. Board mandates are not subject to notice periods and terminate ordinarily at the end of the one-year term of office. There are no contractual agreements or undertakings in place with respect to severance payments or special clauses for members of either the Executive Committee or Board of Directors. The Long Term Incentive Plan, which entered into effect on January 1, 2014 (see section 4), stipulates that

a) In the event of a change of control of Siegfried Holding AG, plan participants will, on the date of the change of control, receive a pro-rated number of shares for all PSUs granted for ongoing vesting periods. The number of shares to be distributed per PSU is calculated on the basis of a valuation method to be determined by the Board of Directors.

b) In the event of a takeover of Siegfried Holding AG which is not endorsed by the Board of Directors, shares are distributed to plan participants pro rata and on the basis of 100% target achievement as per the date of change of control for all PSUs of an ongoing vesting period. The pro rata entitlement is calculated from the grant date of the PSUs until the date of the change of control.

As of December 31, 2017, Siegfried Holding AG and its Group companies do not have any outstanding securities, loans, advances or credits to members of the Board of Directors or the Executive Committee of Siegfried Holding AG. Further, in the reporting year, no securities, loans, advances or credits were granted at non-market rates to persons affiliated with current members of the Executive Committee or Board of Directors or to former members of the Executive Committee or Board of Directors; nor are any such commitments outstanding as at December 31, 2017.

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report of the Statutory Auditor on the Remuneration Report

We have audited the accompanying remuneration report (charts on pages 38 and 39 and page 40 section 7) of Siegfried Holding AG for the year ended 31 December 2017.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Siegfried Holding AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Illi Audit Expert Auditor in charge	Andreas Kägi Audit Expert

Basel, 9 March 2018

pwc

Sustainability Report

Within the range of relevant sustainability topics, the Siegfried Group focuses on compliance and quality, on Safety, Health and Environmental Protection (SHE), and on its responsibility as an employer.

1. Sustainability at Siegfried

In the life science industry, sustainability is more than just a buzzword. The activities of each individual market participant are monitored critically by the authorities, customers and consumers. Sustainability at Siegfried is a fundamental part of the Group's corporate strategy and it is integrated into our daily work. We regard the consistent integration of sustainability into our business model as an investment in the future, as only those companies that act with responsibility and are socially accepted will continue to be economically successful. Corporate growth shall be sustainable by showing responsibility toward society and the environment.

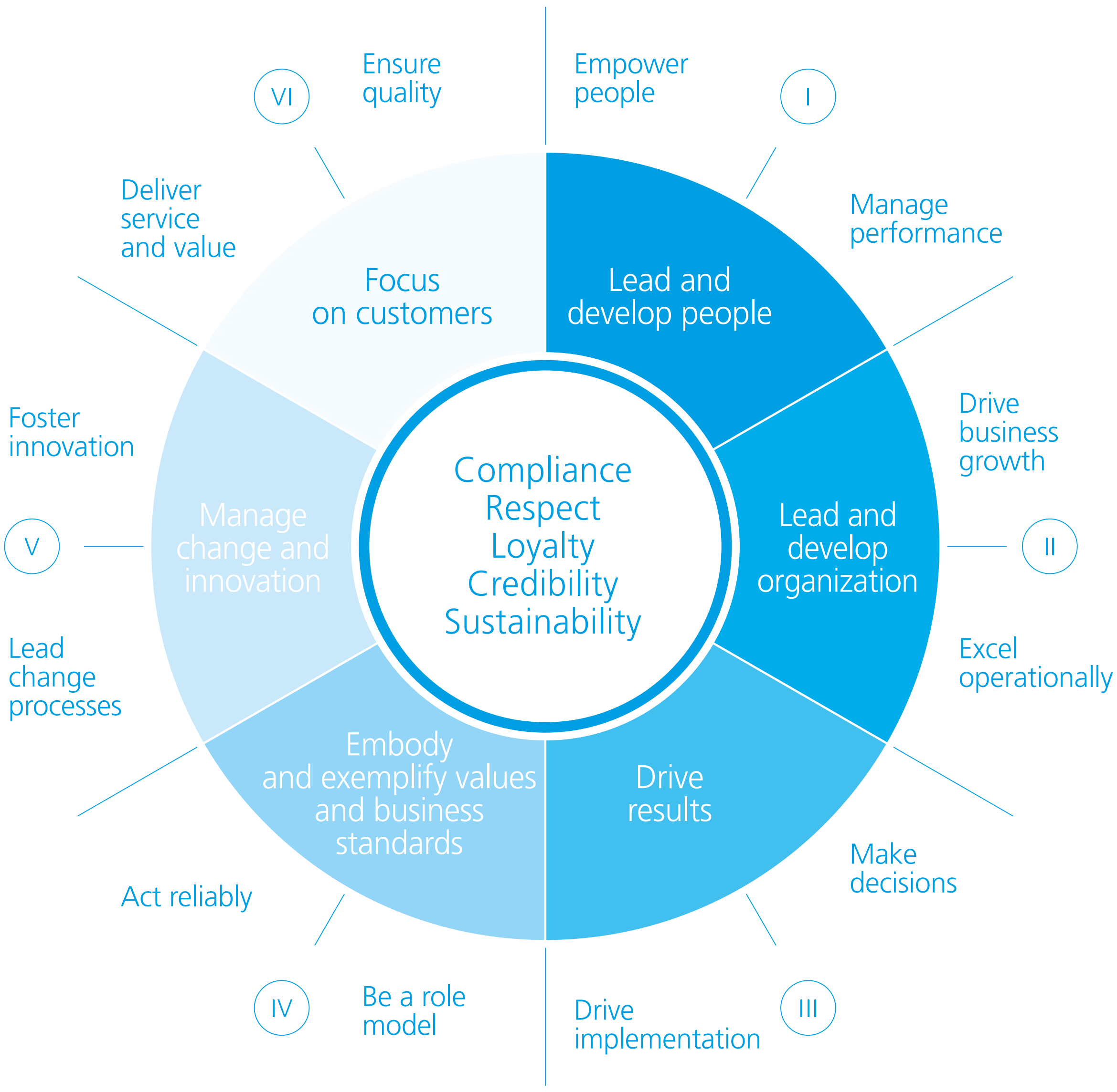
For Siegfried, sustainability is a key element concerning competition and reputation, and it thus plays a highly significant economic role. We acknowledge the concerns and needs of all stakeholders concerning transparency and honesty and take them seriously. The Board of Directors and the Executive Committee play an active role in reporting activities and are open to improvements that will support a high standard of quality. Siegfried addresses sustainability issues in various, important key guidelines and documents.

Stakeholder Dialogue GRI 102–42

Siegfried attaches great importance to regular contact and ongoing dialogue with its stakeholders at both global and regional levels. We consider the close involvement of our stakeholders to be an important element in our corporate behavior and we thus pursue the goal of creating a better mutual understanding and a basis of trust to enhance our partnership regarding Siegfried's work and products. The aim is to closely link the stakeholders' interests with the company's business strategy and to recognize trends early so that they can be incorporated into the strategy process.

We use a stakeholder map for a targeted and systematic stakeholder dialog. The categories of people listed therein are not complete. We have defined them based on their relevance and possible influence on our company. Regular stakeholder mapping also puts us into a position of recognizing attitudes and interests in order to adjust topics, messages and communication platforms to these.

Stakeholder activities include targeted dialog on the local, national and international levels, involvement in committees and professional workshops, comprehensive information programs, and participation in international initiatives and collaborations. Global stakeholder engagement is therefore of great importance. Stakeholder dialogue encompasses both communication and active interaction with individual target groups as well as issue-related multi-stakeholder events. We want to understand the different perspectives held by our stakeholders and to address them effectively.



Materiality Analysis GRI 102–46

Within the reporting for relevant topics, in a multilevel process through a materiality workshop in 2016, Siegfried identified the following topics as being central and consequently prioritized them for this report:

- Product Safety GRI 102–47
- Waste and Contamination
- Fair Working Conditions
- Sustainability in the Supply Chain
- Occupational Health and Safety
- Local Population
- Energy and Climate Change
- Political Representation of Interest
- Corruption and anti-competitive conduct

These sustainability-relevant topics are shown in the following materiality matrix. Sustainability is thus seen as a holistic approach and put into practice along the whole value chain. The reporting follows the standards of the Global Reporting Initiative (GRI).

Leadership and Values at Siegfried

The Board of Directors and the management of the company are the highest responsible bodies for the implementation of and adherence to all sustainability-relevant policies and guidelines, especially the Code of Business Conduct. Responsible for the implementation of the Compliance and Quality Standards as well as for the area of Safety, Health and the Environment (SHE) is the Chief Compliance Committee or, respectively, the Chief Compliance Officer. Sustainability is also embedded in our corporate values.

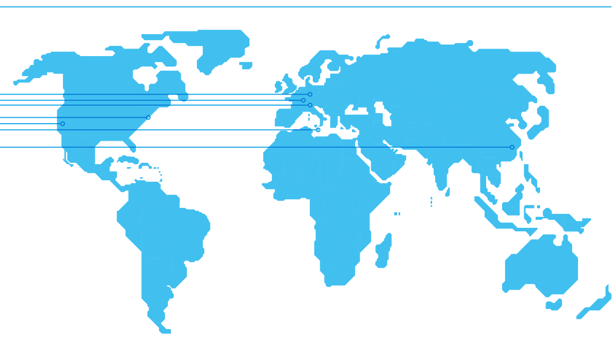
In 2016, Siegfried rolled out new guidelines for all sites concerning "Leadership and Values". The corporate values of compliance, respect, loyalty, credibility and sustainability represent the core of the leadership model. By creating a shared basis for action and bringing life to corporate culture beyond national borders, these five core values form the basis that connects Siegfried with all its stakeholders. They provide clarity and commitment to our dealings with each other and form a basis for understanding cultural differences and for our entrepreneurial success. These five core values help to translate our strategy and our brand into concrete behavior and actions and they should serve as an internal compass.

The management principles were worked out and defined jointly with the managers of all sites. To this end, workshops were held at all sites in 2016, through which the topic was presented interactively to the staff. Thereby, the focus was placed on the individual characteristics, which combined being able to build a diverse, high-performance, dynamic team and, in this way, to advance the success of the company. The management

GRI 102–40
GRI 102–42
GRI 102–43
GRI 102–44

Siegfried in Dialogue

Media	Topics: News and results	Platforms: Media conferences, media releases, direct contact with CorpCom
Capital Market	Topics: News and results, business model / offering	Platforms: Financial analysts' conference, direct contact with CEO and CFO, roadshows
Customers	Topics: Business model / offering, technological innovation, sustainability	Platforms: Meetings, visits, symposiums, trade fairs
Local Stakeholder	Topics: Jobs, safety and environmental protection	Platforms: Direct contact with site managers, sponsorship
Employees	Topics: Working conditions and course of business , safety and environmental protection	Platforms: Information / townhall meetings, "Insight" employee magazine, intranet, internet, internal releases, information cascade via down line management
Trade Unions	Topics: Working conditions	Platforms: Information meetings with HR, direct contacts with line management
Supervisory and Regulatory Authorities	Topics: Compliance, safety and environmental protection	Platforms: Direct contacts, audits, training events, information letters
Political Decision Makers	Topics: Economic framework and specific concerns of the company	Platforms: Company visits, seats on boards of professional associations (chambers of commerce, etc.), involvement of site managers
Suppliers	Topics: Order security	Platforms: Visits, supplier audits, trade fairs
Science	Topics: Technological innovation and youth development	Platforms: Direct contact with universities and advanced technical colleges, symposiums
Associations	Topics: Economic framework and specific concerns of the company	Platforms: Seats on management bodies, exchange of experience groups



model is intensified annually at each site with a training program in which practical content is imparted in targeted learning sequences and directly applied to daily working life. The program is to be systematically extended in the future, so that all our sites achieve the same quality standard.

The structural embedding of sustainable behavior in the company is complemented by various memberships of professional associations and organizations connected with sustainability, especially membership of the science industries' trade association.

In the context of the external perception of our corporate social responsibility, in 2017 Siegfried decided that all sites would undergo a Corporate Social Responsibility (CSR) assessment. EcoVadis was chosen as our partner. The analysis encompasses 21 criteria from the four thematic areas of the environment, social issues, ethics and sustainable procurement. The method of the CSR assessment of EcoVadis also complies with the international GRI and ISO 26000 Standards. The three sites St. Vulbas, Minden and Zofingen achieved the rating "GOLD", the remaining sites were awarded the rating "SILVER".

Compliance with Legal Regulations

Siegfried's Board of Directors and the management of the company are firmly convinced that strict adherence to all applicable laws and the strict rejection of all forms of unfair and unethical business behavior should be essential and central elements of Siegfried's business conduct. Therefore, we aim to comply with the high standards concerning performance and corporate responsibility in all our business activities. Siegfried's employees and suppliers must be kept informed about legal regulations relating to them, and they undertake to always act in compliance with the applicable laws and ethical standards and responsibly.

Reference Framework

Siegfried's Code of Business Conduct, available in the four company languages German, English, French and Chinese, provides its employees and suppliers with a frame of reference and an awareness of the most important critical legal fields and applicable laws, such as bribery and corruption, cartel and competition law, insider trading, fraud and other offenses against property as well as data integrity, confidentiality and data protection, conflicts of interest, trade controls and bans, as well as discrimination and harassment. The Code can be accessed on our website (www.siegfried.ch).

The Code is the basis for the programs on adherence of legal provisions implemented at all Siegfried sites in the last two years, which is aimed, on the one hand, at the sensitization and harmonization of the understanding of lawful conduct of business dealings within Siegfried and, on the other, at the creation of measures for efficient and effective prevention of violations of the law and their damaging consequences. The Legal Compliance Office coordinates the implementation and communication of the program and penalizes violations. Queries on the program for complying with legal provisions and potential violations of the Code of Conduct can be reported by Siegfried employees to the Legal Compliance Office via an external reporting office in the four company languages.

Corruption & Anti-competitive Behavior

Siegfried prohibits all forms of corrupt business behavior, such as the active and passive bribery of public and private officials and decision-makers. All Siegfried employees and suppliers must adhere to all applicable laws concerning bribery and corruption, in particular to the OECD Anti-Bribery Convention, the US Foreign Corruption Practices Act 1977, the UK Bribery Act 2010, and the relevant provisions of national law, in particular the Swiss Criminal Code on bribery of public officials and the Federal Act against Unfair Competition in conjunction with Private Bribery, in their respective valid and current versions.

Furthermore, Siegfried prohibits its employees and suppliers from having any involvement in conduct in breach of applicable supranational and/or national laws that protect free and fair competition. Siegfried's employees and suppliers must perform their activities for Siegfried within the boundaries of European competition law, of US antitrust law, of Chinese anti-monopoly law, as well as all other applicable competition regulations. The Siegfried Group is not subject to any legal proceedings due to anti-competitive conduct or violations of cartel and monopoly laws.

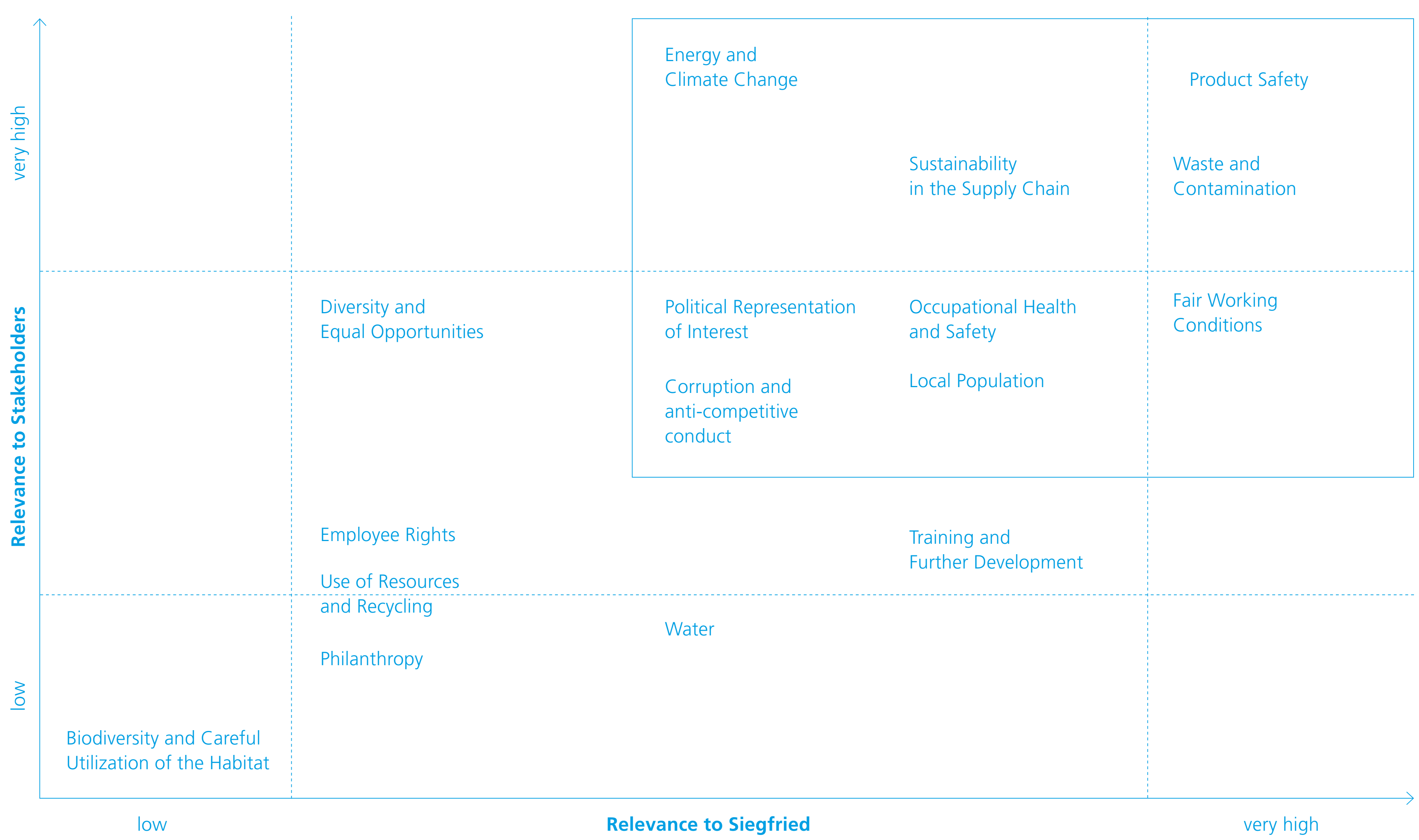
In 2017, the first training sessions on the topic of corruption and bribery were held in the Siegfried Group at individual Siegfried sites. In addition, training was carried out by an external consultant in competition law for Siegfried's sales team. To combat corruption, the first index-based risk analysis was carried out at all Siegfried sites and measures introduced in supply management.

Outlook

The program for complying with legal provisions, which was comprehensibly revised in 2016, will be continuously expanded and improved in 2018 in accordance with the latest industry standards. In particular, intensified risk analyses in the legal areas relevant to Siegfried are planned for all sites as well as additional training. Further topics are: commissioning of and collaboration with third parties, especially the prevention of conflicts of interest and the further sensitizing of all Siegfried employees regarding the reporting office.

Materiality Matrix

GRI 102–47



2. Quality Compliance and Sustainability in the Supply Chain

2.1 Quality Compliance and Product Safety

Siegfried commits itself to corporate leadership that is aware of quality and the constant improvement of all processes and activities. Product safety must be guaranteed in all circumstances so as not to endanger patients. Important elements of this are, first and foremost, well-trained staff. It is important to ensure quality through validated and robust processes, storing and sending materials consistent with their requirements, preventing fakes, and certifying the quality of the purchased materials and services. Quality is, therefore, an important part of corporate policy and is reflected in daily work processes. Siegfried conducts its business activities responsibly and in conformity with the legal regulations of the countries in which we operate.

Siegfried created a comprehensive compliance management system for quality along the entire value chain. It is based on the process orientation of ISO 9001 for quality management and it encompasses the following applicable international guidelines:

- Good manufacturing practice/cGMP (current Good Manufacturing Practice) https://ec.europa.eu/health/human-use/quality_en
- The guidelines of the International Conference for Harmonization ICH, with which the regulatory authorities and the pharmaceutical industry bodies of America, Europe and Japan define standards in the pharmaceutical industry (www.ich.org)
- Guidelines of the World Health Organization (WHO) (www.who.int)

Siegfried established an internal Compliance Committee (ComCom) responsible for worldwide compliance, standardization and harmonization along our value chain for active ingredients and finished products. Under the leadership of the Chief Compliance Officer, the ComCom meets once a month to address topics with relevance to quality. It establishes targets, management systems, initiatives and measures of relevance to quality and adopts applicable guidelines for Siegfried. In its work, it follows international GMP standards while taking account of national standards in as far as they are of relevance for exporting our products, such as special standards issued by the US Food and Drug Administration, the European Union, etc.

Using an integrated quality management system, we manifest and support the ongoing consideration to the quality concerns of our internal and external customers. Our record of compliance covers many years and reflects our core competencies as well as the strong values from which our customers benefit from a partnership with Siegfried.

We control the relevance and applicability of our guidelines at regular intervals. At the end of 2017, 36 such provisions were in force. They relate mainly to aspects of quality, but also refer to the areas of finance, safety, health and the environment as well as communications and the conduct of the employees (Code of Business Conduct).

Integration of the New Sites

The integration of the three new sites in Evionnaz, St. Vulbas and Minden into our compliance system was pursued intensively in 2017. The Siegfried-wide compliance system has been virtually completely implemented and numerous inspections by national and international authorities were passed successfully.

Nantong now has a tested GMP structure and a safety concept based on that in Zofingen is now in place, and production has thus started. Several customer audits were carried out in 2017. They have shown that we are on the right track, but there is room for improvement in certain areas. The current challenges lie in the fact that the site is to change from run-up phase to routine, consequently, commercial production and the current safety and environmental requirements are to be adjusted. Furthermore, Siegfried in Nantong passed its first inspection by the Chinese authorities (CFDA) and received the so-called Written Confirmation Letter for a product that is to be sold to Europe.

Inspections and Audits

The focus of inspections by the authorities and audits by customers is on the quality of the goods produced and supplied by Siegfried to, ultimately, protect patients from risk. Therefore, the inspections and audits check compliance with the regulations for production, quality inspections and logistics procedures.

Open and continuous communication with the authorities, customers and suppliers is essential for well-functioning cooperation. Results of customer audits and of inspections by the authorities make Siegfried's performance and capabilities transparent. As is typical in the pharmaceutical industry, all of Siegfried's sites are constantly monitored. A difference is made concerning inspections (by the authorities), audits (by customers or by Siegfried at suppliers' facilities) and internal audits. Customer audits and audits at suppliers' facilities and manufacturers are announced in advance. Inspections by the authorities and internal audits can be carried out without prior notice. For more information on the topic of audits with suppliers, please see the chapter "Sustainability in the Supply Chain", page 77.

As a rule, inspections by the authorities are carried out:

- in the USA by the Food and Drug Administration (US-FDA), and for narcotics by the Drug Enforcement Administration (DEA)
- in Switzerland by Swissmedic, which delegates the inspections to the "Regionales Heilmittelinspektorat Nordwestschweiz" (RHI), and by the US-FDA
- in Malta by the Medicines Authority Malta (MAM) and the US-FDA
- in Germany by the regional councils or the Trade Supervisory Board and the US-FDA
- in France by the national French authority (ANSM) and the US-FDA
- in China by the national authorities CFDA (City, Province FDA), EDQM (Europe) and the US-FDA.

In 2017, GMP inspections by the authorities were carried out at several sites with positive results and the responsible authorities issued or renewed the licenses (see http://www.siegfried.ch).

In respect of several hundred successful inspections and audits in recent years – over 40 in 2017 in Zofingen alone – Siegfried had a good opportunity to measure itself against the systems of other companies and against the requirements of the authorities and to draw conclusions as to its own interpretation of guidelines. This created a sense of security for our quality management system. Moreover, this system serves to convince customers of our performance.

Customer Dialog

Siegfried operates a formal customer complaint system. We follow up all external question or complaints, be they justified or not. The type and number of complaints are recorded systematically. The individual cases are evaluated in quality assurance meetings run by the local quality manager. If necessary, changes will be initiated. Cases of a critical or strategic nature are activated by ComCom. In as short a time as possible, at the latest after 30 days, customers receive the results or, at least, an interim report on the investigations.

The number of significant observations in audits by our customers in Zofingen has declined continuously in recent years. In Zofingen, Siegfried receives on average one customer per week for an audit.

Quality Agreements with Customers

Customer requirements are extremely varied. On the one hand, they are becoming increasingly demanding and, on the other, deadlines are becoming shorter or production must be carried out in line with specific customer standards. The prescribed quality agreements between Siegfried and its customers represent a big challenge for the company. With an active customer base of over 100, several parallel customer-specific quality management systems cannot be handled in daily operations. The level of Siegfried's own quality management system is so high because it must satisfy a range of customer requirements. In 2017, over 200 quality agreements for the Siegfried sites were concluded with our partners. Over 100 quality agreements are in the pipeline and must be verified or negotiated in 2018. The new Siegfried sites have already been completely integrated into the system so that a growing number of contracts are materializing between our customers and several sites.

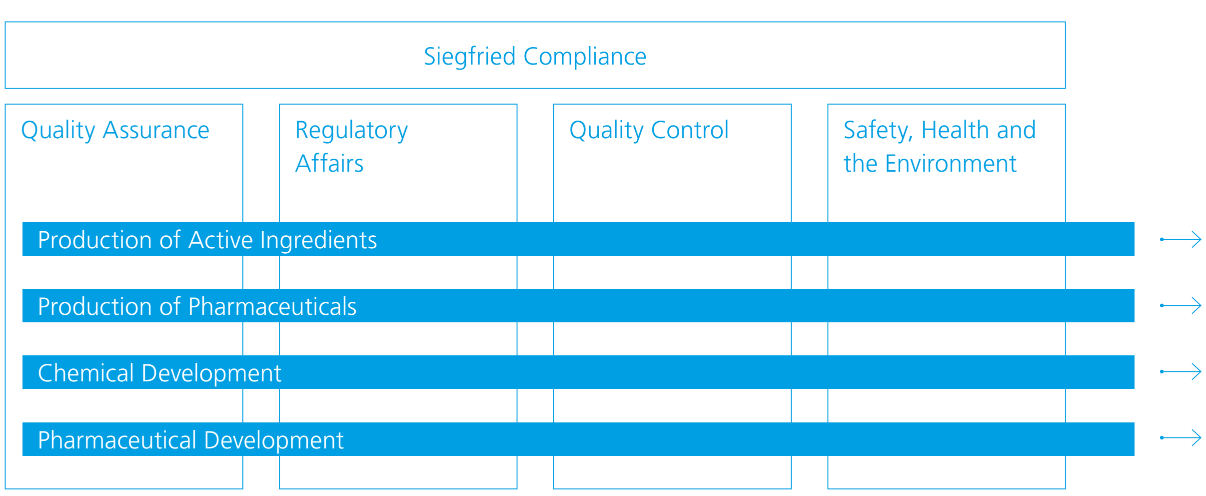
At Siegfried, all raw materials, intermediate stages and finished products undergo numerous inspections and assessments in the interest of product safety.

Outlook

The high cGMP standard (current Good Manufacturing Practice) and Siegfried's quality image enjoy international recognition. Siegfried knows it is better to maintain high standards than to restore a damaged reputation. As the industry guidelines and the customers make ever increasing demands on us, we must keep an eye on the situation at all times and take appropriate action.

In 2018, Siegfried will continue to work on the standardization and harmonization of the quality management system at all Siegfried sites. Currently, harmonization of the GMP processes has not yet been

Siegfried's Compliance Model



The compliance model of Siegfried is based on the four pillars of quality assurance, regulatory affairs, quality control and safety, health and the environment (SHE). All four pillars are consistently taken account of in the overall value chain during product development and manufacture.

completed at the new sites in Minden, Evionnaz and St. Vulbas. In 2018 and 2019, an important role will be played by the IT program in laboratory management and in deviation and change management. This program has already been released for implementation and will be installed and implemented with the participation of all subsidiaries in 2018/19.

2.2 Sustainability in the Supply Chain

Maintaining sustainability standards in the supply chain represents an elementary value adding factor and, at the same time, an important lever in the implementation of our "Code of Business Conduct" and for risk minimization. This requires a joint effort and long-term, value-orientated action to ensure product quality and social and environmental sustainability. We are convinced that sustainability in the supply chain can be obtained only by means of clear rules regarding the selection and qualification of our suppliers and in close cooperation with established suppliers.

We regard cooperation with our suppliers as an opportunity to integrate sustainability into the entire value-added process. Our suppliers play a decisive part in our sustainability performance, and that is why cooperation with them must be based on principles that we share. A shared understanding of quality, reliability of supply, ethical and social standards, competitive prices and consistent implementation of the demands we make on sustainability in all production and business processes regarding the global, complex supply chains and the large number of suppliers and sub-suppliers represents an enormous challenge but is indispensable. Our partners should fulfill the same ecological and social standards as we do in terms of respect for internationally recognized human rights and employments rights, the strict prohibition of discrimination and harassment, adherence to environmental standards, strict prevention of any kind of bribery or sustainable use of raw materials.

Siegfried's management system stipulates that we produce in accordance with cGMP standards, act responsibly in compliance with economic and environmental standards, and evaluate new technologies in terms of their contribution to sustainability. Both national and international standards and guidelines represent the benchmark for the further development of our systems, be it concerning environmental awareness, occupational safety or other socially-relevant issues.

In the areas of logistics and distribution, responsible conduct also enjoys a high priority. The safe transportation of materials and products is essential; product safety is guaranteed throughout the supply chain and thus meets national and international standards and, especially, the Good Distribution Practice (GDP) widely used in the pharmaceutical industry.

Quality Requirements and Quality Certificates

Triggered by a rising quality awareness and the consequently higher demands made on quality by the customers, but also by accidents, counterfeits and adulteration, the number of inspections and certificates/statements generally required from the pharmaceutical industry is growing steadily. Today, in addition to normal analysis certificates, which have long been required, regarding appearance, content, purity, physical characteristics and the production of our products conforming to GMP, customers and regulatory authorities require data and certificates about genotoxic impurities, freedom from heparin adulteration, freedom from hidden genetically modified components, including freedom from TSE/BSE, melamine, benzene, etc. Siegfried works in close cooperation with the US-FDA regarding product piracy to combat counterfeiting and to ensure end-user safety.

Collaboration with Suppliers

Audits, in which Siegfried checks their quality management system as well as the social and ecological effects along the supply chain and identifies any possible risks, are carried out at regular intervals at the suppliers' locations. In doing so, defects are addressed, and measures derived. Non-compliance with minimum standards will result in the imposition of a delivery block or the initiation of a change of supplier. Most of the audits are carried out by internal auditors complemented by a small number of external audits supervised by independent auditors.

To date, no systematic inspection procedures regarding social and environmental criteria have been established.

Qualification of Suppliers and Service Providers

Often, raw materials, pharmaceutical excipients, packaging material, active agent components and occasionally also active agents purchased from manufacturers and suppliers abroad and used by Siegfried to be able to synthesize pharmaceutical active agents or to formulate, manufacture and package medicines. In such cases, Siegfried is responsible for qualifying these manufacturers/suppliers and we therefore have an (audit) system for carrying out qualification in accordance with applicable quality standards. This qualification is carried out through questioning the manufacturers/suppliers, continuous monitoring of the quality of the material received and audits of suppliers' production plants. The manufacturers are mainly based in India, China and Taiwan. In 2017, more than 40 audits of suppliers and service providers were carried out.

Good Distribution Practices (GDP) in Distribution

GDP is a topic of increased significance since the introduction of new international guidelines in 2013. This should guarantee that the entire supply chain of materials from manufacturers/suppliers to Siegfried and from Siegfried to our customers is safeguarded from incorrect transportation and storage conditions as well as fraudulent attempts at counterfeiting. In doing so, there are increasing new requirements of measurement and documentation of transportation and storage conditions to be fulfilled. Furthermore, Siegfried must ensure that products are delivered only to the authorized recipients. To meet these requirements, we both adjusted our processes in SAP and ensured closer monitoring of the transportation companies we employ.

In distribution, our aim is to offer our customers high-quality products and services and thus build up long-term relationships with them. Distribution at Siegfried is strictly regulated and subject to the relevant laws. The group-wide Code of Conduct, which does not permit violations of the law and which requires strict adherence to anti-corruption guidelines and cartel law (for more on the topic of corruption at Siegfried, see "Program concerning compliance with legal regulations", page 43), applies. So that our products and services may be distributed successfully, targeted communication and addressing the manifold needs of our customers are of particular importance. Owing to the great diversity of this group, individual measures must be taken to enter into dialog with customers and to gauge their satisfaction. Siegfried therefore operates an effective customer complaints management system (for more on the topic of customer complaints management see the chapter on "Quality Compliance", page 44).

Outlook

All Siegfried's suppliers must also undergo our qualification processes. In the forthcoming years, in addition to the obligatory review of the quality systems and processes of the suppliers, service providers and logistics providers, they will increasingly be assessed for their sustainability, environmental sustainability and social responsibility. In the future, our inspection criteria will be strengthened through self-assessments or onsite audits.

3. Safety, Health and Environmental Protection (SHE)

Safety, health and environmental protection are top priorities at Siegfried and are firmly anchored in its corporate mission statement. According to this principle, our employees and teams of specialists are committed every day to the continuous improvement of safety and to minimizing negative impacts on the environment. The costs and risks regarding work and production interruptions decrease as the result of accident prevention.

As a chemical-pharmaceutical company and a leading provider of controlled substances, Siegfried attaches great importance to plant safety, and the company works closely with professional service partners. Specialists control and monitor the situation on the company's premises around the clock and monitor the firms' own central alarm system. Every year, the expenditure on and investment in safety, health, environmental protection and plant security amount to tens of millions (double-digit) Swiss francs. Over 2% of Siegfried's global workforce is engaged full-time in the areas of safety, health and environmental protection.

Site	Number of employees working in SHE
Zofingen	12
Pennsville	6.5
Malta	1
Irvine	1
Nantong	6
Hameln	1
Minden	16
Evionnaz	15
St. Vulbas	8
Total	66.5

Policy Guidelines and Key Figures

Siegfried Zofingen und Evionnaz are members of the industry association Chemie Pharma Biotec "scienceindustries Switzerland", and have co-signed the Responsible Care® program. The Responsible Care Program has also been implemented in the French production plant St. Vulbas.

This worldwide initiative signifies the determination of the chemical-pharmaceutical industry to strive for continuous improvement in the areas of safety, health and environmental protection and to publicly present its progress on a regular basis. This initiative anchors this as a precautionary principle in the form of the voluntarily imposed regulations.

The Responsible Care® program has defined six principles:

- The protection of people and the environment are a top priority.
- Plants are operated in such a way as to ensure safety, health and environmental protection. Products are safely manufactured, transported, used and disposed of with a lower impact on the environment.
- The possible impact of processes, products and waste on people and the environment is known. Collaboration with the authorities and third parties to implement measures for the protection of employees, society and the environment.
- Supporting business partners in the safe transportation, safe handling and the safe and environmentally compatible use and disposal of products.
- Dialogue with society is maintained, which includes communication about products, processes, equipment and their impact on people and the environment as well as precautionary protective measures.
- Products, processes and equipment are operated in such a way so that they are ecologically, socially and economically sustainable.

In 2006, Siegfried signed the ChemStewards® program of SOCMA (Society of Chemical Manufacturers and Affiliates), which is applied at the sites in the USA. The program focuses on the primary goals of stakeholder communication, product responsibility, the implementation of "Safety, Health and the Environment and Security" (SHE & S) from planning to operations, training and the commitment of employees as well as resource management and waste minimization.

The principles and contents of these various programs and systems are summarized in a global SHE policy, which was bindingly introduced in 2006 for all sites. This policy describes Siegfried's philosophy of safety, health and environmental protection towards employees, suppliers, business partners, customers, shareholders, the authorities and the public.

The management of Siegfried determines the SHE business policy and ensures that it is understood and practiced at all levels. The goals and programs concerning safety are developed within the medium-term planning process and reviewed on a regular basis.

The implementation of our safety and environmental policies and compliance with regulations are primarily in the hands of our employees. They are responsible for their own safety-conscious and environmentally compatible conduct. The leadership at every level of the organization is responsible for promoting safety and environmental awareness through relevant framework conditions and implementation measures.

In addition to global SHE campaigns, the various Siegfried sites also have the option to roll out site-specific initiatives. In 2016, in Pennsville, the Continuous Improvement (CI) program was launched to heighten safety awareness, which should be achieved through taking a variety of different approaches and cross-sectoral teams. This program has shown results: the accident figures have been significantly reduced against those of the previous years. In all plants, apart from Evionnaz and St. Vulbas, where the introduction is expected for 2018, the 2017 DuPont™ STOP program from training safety precautions was launched.

Siegfried uses Key Performance Indicators (KPI) to control management processes and performance evaluations; they are also used for SHE protection and to define any corrective actions that may be necessary. Based on established accident and environmental parameters, we report on our activities and provide an extensive overview of accidents to interested parties. Additional information is available on our website (www.siegfried.ch).

Based on the area development at the Zofingen site, in 2014, the environmental risks were comprehensively assessed through an Environmental Impact Assessment (EIA) and, in 2016, revised due to the construction of the Logistics Centre. The report confirms that the requirements of the environmental protection legislation were adhered to in all respects. The evidence of this report continues to be valid for 2017.

3.1 Energy and Climate Change

The production of active pharmaceutical ingredients and intermediate products is energy intensive because, as a rule, it includes several chemical and physical stages. In addition to the many manufacturing stages, the temperatures, which range from very low to very high, required for many chemical reactions and physical processes are responsible for considerable energy demand. The limited consumption of thermal energy compared to that of the previous year is based on increased cheaper energy processes.

Much of the raw materials used by us originate wholly or partially in the petrochemical industry. As we depend on these raw materials in the production of medical substances, careful handling of these resources is of great importance to us. However, it is not only about the availability of raw materials, Siegfried is also interested in reducing global climate warming and that the negative effects linked to it are restricted. We can make an active contribution through careful handling of natural resources and reducing the volume of waste materials. The current figures have improved slightly against those of the previous year. The company sees further potential for improvement in the optimization of processes as well as in decommissioning old plants and old buildings with poor energy performance.

Siegfried has already implemented various measures. For example, natural gas, which is relatively environmentally friendly, is used as the main source of energy. Heating oil is used only to a limited extent, above all where natural gas is not available. Siegfried stopped using heavy fuel several years ago. Regenerated solvents, which can no longer be used in production, serve as an alternative energy source. It was possible to increase the use of these so-called alternative fuels by 6.6% above the previous year's consumption; however, they only account for 3.5% of the total energy requirement. The energy consumption of electrical and thermal energy should be reduced based on optimization and partially through system upgrades, e.g. mode of operation of ventilation.

The goal set for 2017, not to allow the volume of standard energy consumption to increase further, was achieved. It was also possible to adhere to our goal of reducing VOC emissions in the environment.

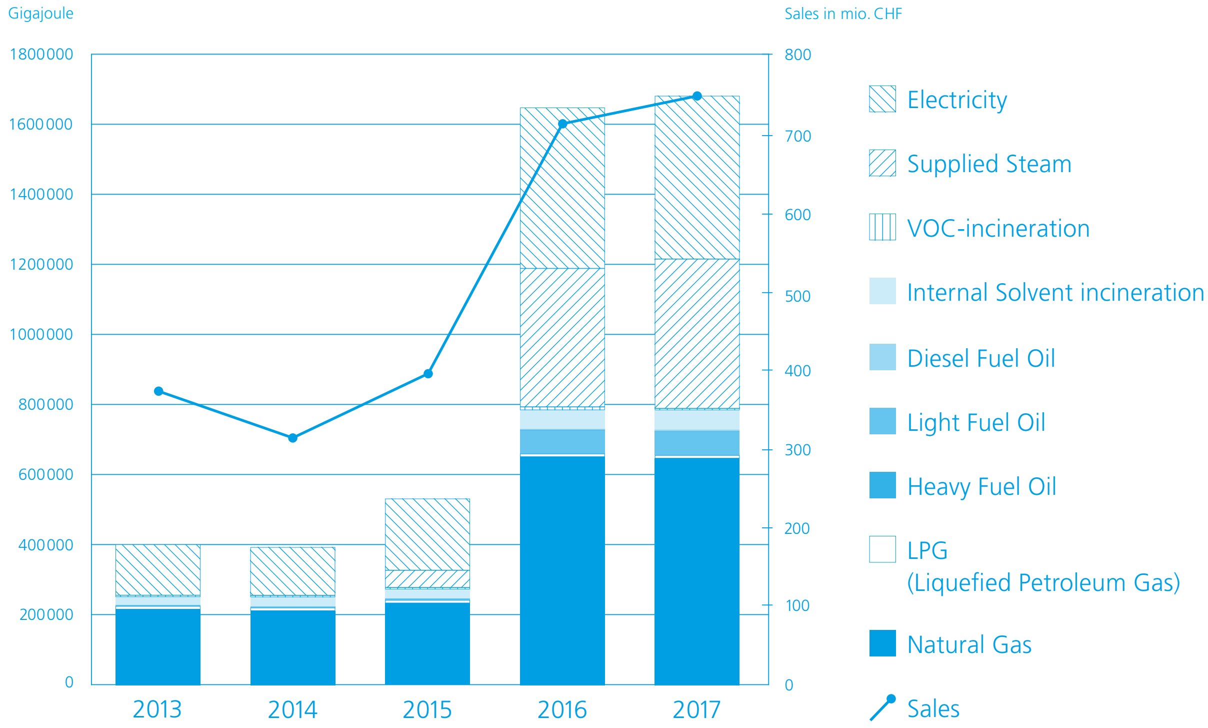
Siegfried's total energy consumption of 1689 terajoules (TJ) was 2.0% higher than that for the 2016 reporting year. Even though less energy was used at the sites in Evionnaz (–5.5%) and Pennsville (–3.6%) compared to the previous year, overall consumption increased. The greatest increase in energy consumption was recorded at the sites in Irvine (+52%) and Zofingen (+6%), whereby the absolute energy consumption in Irvine is relatively limited when compared with other sites; Irvine accounted for only 0.5% of Siegfried's total energy consumption.

The volume of standard total energy consumption dropped by 2.5% compared to the previous year.

In respect of natural gas, consumption was slightly less than that of the previous year (–0.4%), and heating oil consumption was also lower (–4.9%), whereas the volume of steam grew (7.3%), and the consumption of electricity increased (+1.8%). In 2017, Siegfried used no fuels which were generated from renewable energy sources. Wherever possible, Siegfried replaced mineral oil by natural gas, which has a lower impact on climate and resources. In smaller projects, fossil fuels were partially substituted. Together with the federal authorities, Siegfried defined a CO_2 reduction target for 2020, which should be achieved by means of site modernization. The details on energy consumption include all consumption directly incurred by the firm, which includes the diesel consumption of company-owned vehicles. Energy used on business travel is not recorded. The energy content of the fuels follows the fact sheet CO_2 Emissions Factors of the Greenhouse Gas Inventory of Switzerland, published by BAFU (Swiss Federal Office for the Environment FOEN) on 26.06.2016.

The total consumption of electric power at all Siegfried sites amounted to 469.1 terajoule (TJ). The increase in consumption of 1.8% is based on an increase in the Irvine, Zofingen and Hameln plants. In the other plants, the consumption of electricity was at the previous year's level or below. Higher consumption of electricity in Irvine is due to longer operational times and the transfer of production to another building. Consumption in Zofingen increased due to additional electricity required by the newly created production buildings and the continued operation of the buildings which were to be replaced by the new buildings.

Energy Consumption



Key Environmental Protection Figures

	Unit	**2017**	2016	2015	2014	2013
Energy consumption						
Total energy	GJ	1 689 200	1 656 200	531 900	400 000	403 300
Natural gas	GJ	649900	652 300	234 000	210 400	216 400
Heating oil	GJ	65 300	68 737	7 200	4 400	5 500
Alternative fuels (solvents)	GJ	58 300	56 700	23 900	27 300	21 800
Electricity	GJ	469 100	460 800	205 200	145 600	147 000
Emissions						
CO_2 emissions (Scope 1) [1]	Tons	47 900	48 200	16 300	15 000	15 100
VOC emissions	Tons	59	65	17	16	12
CO emissions	Tons	8.5	8.7	n.e.	n.e.	n.e.
NO_X emissions	Tons	40	37	n.e.	n.e.	n.e.
SO_2 emissions	Tons	3.3	6.0	n.e.	n.e.	n.e.
GWP, 100-year time horizon	Tons	47 600	n.e.	n.e.	n.e.	n.e.
Water / waste water						
Water consumption	m^3	6 493 000	6 871 000	2 456 000	2 071 000	2 103 000
TOC emissions [2]	Tons	109	144	536	454	509
Nitrogen emissions	Tons	73	67	n.e.	n.e.	n.e.
Phosphor emissions	Tons	2.7	1.9	n.e.	n.e.	n.e.
Waste [3]						
Total waste [4]	Tons	47 985	50 400	16 200	13 500	15 900
Hazardous waste	Tons	39 918	47 600	13 800	11 700	14 600
Incineration	Tons	34 055	n.e.	n.e.	n.e.	n.e.
Recycling	Tons	842	n.e.	n.e.	n.e.	n.e.
Reclamation, including energy	Tons	4 927	n.e.	n.e.	n.e.	n.e.
Landfill	Tons	94	n.e.	n.e.	n.e.	n.e.
Non-hazardous waste	Tons	8 067	2 800	2 400	1 800	1 300
Incineration	Tons	402	n.e.	n.e.	n.e.	n.e.
Recycling	Tons	1 670	n.e.	n.e.	n.e.	n.e.
Reclamation, including energy	Tons	1 451	n.e.	n.e.	n.e.	n.e.
Reutilization	Tons	28	n.e.	n.e.	n.e.	n.e.
Disposal to external wastewater treatment plants	Tons	4 007	n.e.	n.e.	n.e.	n.e.
Recycling						
Regenerated solvents (internal and external)	Tons	23 500	15 100	6 400	2 150	2 720

n.e. = not recorded
[1] Excluding CO_2 emissions from wastewater treatment plants
[2] Since 2016 TOC emissions after the – wastewater treatment plants – have been recorded
[3] Classification based on the chemical composition of the waste, reporting the disposal methods by the individual plants
[4] Excluding sewage sludge

27.7% of the electric power consumed was generated from renewable energy sources.

At the Malta plant, the quantity of electricity produced by means of photovoltaics grew slightly by 1310 GJ (+21.5%) compared to the previous year.

CO_2 emissions in Scope 1 (direct emissions from operation) were mainly due to the use of fossil fuels; other sources make up less than 2%. Due to the reduced consumption of fossil fuels, the CO_2 emissions decreased slightly by 358 tons, or 0.7%, compared to the previous year. The volume of standard CO_2 emissions was reduced by 5.1%. The GWP (Global Warming Potential), expressed as CO_2 equivalent, amounted to 47 604 tons. For the conversion of other GHG emissions (greenhouse gases) into CO_2 equivalents, the GWP values for a 100-year time horizon in accordance with the IPCC Assessment Report 5 (AR 5), Chapter 8 ("Anthropogenic and Natural Radiative Forcing"), are used. The direct emissions in the company, i.e. Scope 1, were taken into account. The CO_2 emissions from biogenic sources were not included. It is anticipated that they will be included in the 2018 reporting year.

The VOC volume emitted amounted to 59 tons; the volume compared to that of the previous year was less by 6 tons. The VOC emissions in the Minden and Pennsville plants increased but were more than compensated for by significantly less emissions in St. Vulbas. The 40-ton emission of carbon nitrous gases (NOx) was 3 tons above that of the previous year. The increase was recorded in the Evionnaz plant. NOx emissions at the other plants remained constant.

Sulphur oxide emissions were recorded at a low level. In 2017, the emissions amounted to 3.3 tons, or virtually half of the previous year's emissions.

Carbon monoxide emissions of 8.5 tons at all Siegfried plants decreased by 0.2 tons compared to the previous year. In coordination with the authorities, Siegfried drew up a plan to measure VOC from 2018 to 2020. VOC emissions should consequently drop even further.

The reported greenhouse gases emitted refer to emissions in Scope 1 (direct GHG emissions).

Outlook

The volume of standard energy consumption is to be reduced. The same applies to the consumption of electricity. We aim to further reduce the volume of standard CO_2 emissions. At the site in Nantong, China, exhaust incineration will be adjusted to save on organic solvents and other fuels to be incinerated. It is planned, that exhaust gases from the tank plant in Nantong will be captured and the VOC emission reduced. At the Minden site, the pumps are currently being retrofitted which should be completed in 2018 to meet the requirements of the Technical Instructions on Air Quality Control (TA Luft).

3.2 Waste and Contamination

By its very nature, the production of active pharmaceutical ingredients results in the accumulation of large quantities of waste as the manufacturing processes are complex and lengthy. The waste contains by-products of a synthesis which can be harmful to human health and the environment. Siegfried is committed to minimizing waste. Handling waste with care is therefore of great importance to prevent negative influences on eco-systems. Siegfried meets all requirements of the authorities and is in possession of the necessary licenses.

Siegfried meets the defioned environmental standards and cultivates regular dialogue and an exchange of ideas with the responsible environmental authorities. Concerning the Zofingen site, a cooperation agreement was signed in the summer of 2016 with the Canton of Aargau environmental authority. The agreement focused on the topic of waste water and an exchange of data was agreed on. Siegfried undertook to actively report all irregularities with a potentially negative influence on the environment.

Discharge reduction of active pharmaceutical ingredients and intermediate products into waste water at the Zofingen site was continued. Tests were carried out for several manufacturing processes and, where necessary, waste water treatment was implemented. The production sites in Pennsville and Evionnaz have their own wastewater treatment plants which remove trace contaminants by means of activated carbon treatment.

In 2017, water consumption was reduced by 5.5% across all sites. When comparing water consumption with sales, consumption decreased by 9.7%. Most of the production sites were able to reduce water consumption. Owing to the great commitment of our project group, water consumption at the Zofingen site decreased by 8.5% compared to the previous year. We therefore reached an interim goal, and additional savings in water consumption are necessary and planned. However, higher water consumption at the other production offset the savings recorded in Zofingen.

Across all Siegfried sites, total organic carbon (TOC) emitted into waste water amounted to 109 tons. This is 44 tons, or virtually 25%, lower than in the previous year. Therefore, at all sites, the TOC emission after wastewater treatment has been recognized. The same is true for the key wastewater indicators of nitrogen and phosphorous emissions, where the values were measured following wastewater treatment. Nitrogen emission into the water grew by 9.5%. The Minden site is the main emitter of nitrogen as it produces a large quantity of products containing nitrogen. A project is underway for the company's own wastewater treatment plant at the Minden site, which will improve the emission of nitrogen. Phosphorous released into the environment is 42% above that of the previous year, but with 2.7 tons at a low level.

The volume of total waste of all nine Siegfried sites amounted to 47 985 tons, which is 4.7% less than in 2016. Compared to sales, waste decreased by 8.9%. The waste is divided into 39 918 tons of hazardous waste and 8067 tons of non-hazardous material. The considerable proportion of hazardous waste is due to the fact that chemical production incurs a large volume of waste solvents classified as hazardous. However, it is in this very waste category that the greatest savings were achieved in 2017. The waste solvents disposed of decreased by 16% owing to the higher regeneration of solvents at several sites. There are two possibilities for regeneration: plant-internal regeneration or plant-external regeneration. A total of 23 500 tons of solvents were regenerated in 2017, representing an increase of 55% compared to the previous year. The proportion of regenerated solvents improved from 0.33 to 0.61.

Outlook

Additional savings in the area of waste are planned for 2018. Siegfried will focus on optimization in waste solvents, the main waste category. An interdisciplinary project group was set up consisting of employees from the Business Excellence, Product Chemistry, Waste and

Safety and Environmental Protection Departments. The proportion of regenerated solvents relating to the volume of waste solvent grew significantly in 2017. At several sites, there is potential for higher solvent regeneration which has not yet been exhausted.

Water consumption in 2017 was stabilized. Additional savings and optimizations are foreseen for 2018. The interdisciplinary project group set up will pursue this goal in 2018. In addition to the efforts to reduce water consumption, discharge of pollutants into the water is continuously being improved, as exemplified by the emission of active pharmaceutical ingredients. These processes are constantly being optimized. At the Evionnaz site, activated carbon treatment was installed in the site's own wastewater treatment plant to reduce the emission of micro-impurities. In Zofingen, an ongoing study concerning the municipal wastewater treatment plant into which Siegfried feeds its waste water looks into improvement of waste water purification regarding micro-impurities. In Minden, the on-site wastewater treatment plant is being optimized regarding the elimination of nitrogen from waste water.

In 2018, the Zofingen plant will participate in a feasibility study concerning the fermentation of industrial waste water, which is co-financed by the Swiss Federal Office for Energy.

At the Nantong site, a sludge drying system has been installed in the wastewater treatment plant with the aim of reducing the disposal of sewage sludge.

The "pump & treat" installations for decontamination at the Evionnaz site should have been operational in 2017. As the borehole used in the pilot operation was damaged, the installation was delayed by five months. It is expected to be put into operation in 2018.

3.3 Safety and Health

An efficient and safe chemical process is central to process development. As a rule, all chemical processes undergo extensive environmental and safety tests during their development. Our internal safety laboratories employ well-trained specialists and state-of-the-art measuring instruments for the physical and thermal testing of materials. In experiments, the flammability, the risk of explosion, as well as the response in normal operation and in the event of emergency are simulated and evaluated. The findings are summarized in a safety and environmental report and assessed in a subsequent process risk analysis.

As part of our failure prevention plan, failure scenarios in the production, storage and internal transportation of chemical substances are subjected to a comprehensive risk analysis. The results are summarized in a report and reviewed by the authorities during an annual inspection. For emergency situations, such as explosions, fires or chemical incidents, Siegfried maintains its own emergency teams in the production facilities. Thus, the chemical and firefighting team in Zofingen and the Minden firefighting team each have more than one hundred members, consisting of professional firefighters and volunteers from all departments. Additionally, at the behest of the authorities, these groups also respond to incidents involving hazardous materials outside the area of the plants. The site in Evionnaz also has its own emergency unit.

How do I respond properly in the event of an emergency? These and similar questions about firefighting and first aid are discussed in regular training sessions and simulated in practical evacuation drills.

In addition, Siegfried employees are required to participate regularly in training with fire extinguishers. In these training sessions with small extinguishers, the employees learn to handle a fire in a wastebasket, a PC on fire, or even burning solvents by using different extinguishing methods. What they learn there is useful both in their professional environment as well as their personal life.

Focus on Workplace Safety

It is Siegfried's intention to create a corporate culture that tolerates no accidents. The Siegfried safety program was launched worldwide in 2006 based on this vision. The objective of the program is to raise the safety awareness of every employee. To further promote this, the Executive Committee decided in 2013 to introduce a global safety program, which was rolled out at every site together with experts from DuPont Sustainable Solutions. The key elements are the established STOP™ program and the five cardinal rules. All employees are required to develop a greater awareness of safety and to feel responsible for safety at work – their own and the safety of their coworkers. The goal of this safety initiative is an 80% reduction in the accident rate by 2017 compared to the 2012 reference year. Third-party companies located in Zofingen are also actively participating in this safety program. The target has not yet been achieved at all sites, but there has been a significant reduction in accidents since 2012.

In 2014 and 2015, 200 employees received training as part of the STOP™ program at the Hameln, Malta, Pennsville, Irvine and Zofingen sites. With the integration of the Evionnaz and St. Vulbas production sites into the Siegfried Group, the STOP™ Program 2017/18 was mandatorily introduced at these sites. Several hundred "STOP auditors" have completed their training, which sharpens their own safety awareness, and the STOP auditors have been enabled to engage in structured dialogues with their colleagues and co-workers on the topic of safety. These dialogues are the actual core of the initiative, because safety is a recurring topic. It is not only about monitoring and identifying deficiencies. It also means recognizing and commending good conduct and good conditions. For historical reasons, at the Minden site, we have decided on a special solution, namely to put communication and behavior of the employees at the core and includes the most important STOP™ Program.

STOP Initiative

In 2017, several hundred such dialogues took place at the sites. The evaluations of the feedback from the STOP activities at the Zofingen plant showed the following picture for 2017: most of the employees worked with an awareness of safety.

Number of reported safety dialogs	**740**
Individual observations	20 000
Observations evaluated as "safe"	19 000
Observations evaluated as "unsafe"	1 000

In addition to the STOP initiative, a company-wide campaign for workplace safety was launched in 2014 with five cardinal rules describing the significant risks. These cardinal rules were applied globally in 2017. Compliance is mandatory for all employees; failure to comply will result in disciplinary action.

Our five cardinal rules applicable worldwide are:
- Consistent use of personal protection equipment;
- Completion of the required safety training prior to performing work;
- Protection against falling while working at or above a height of two meters;
- Safeguarding equipment prior to maintenance work;
- Safety devices must not be removed or bypassed.

To permanently promote safety awareness while working, various activities and campaigns were initiated. In the context of clarifying accidents, brief information was drawn up which was sent internally to all employees and also used for training purposes. Furthermore, on a monthly basis, SHE publishes key topics on work safety, such as, correct grounding, use of personal protection equipment, tripping/falling, dangers of internal site traffic, and correct alerting.

Further training on safety concerning various topics is offered to the site's employees. For example:
- Internal training for logistics personnel and employees in dispatch on the transportation of hazardous goods and air freight safety training (known shipper)
- Introductory course for logisticians and internal waste disposers on Hazardous Goods Controls
- Safety training and refresher courses for production workers on the topic of "Handling a Forklift"
- Training for all production workers on the topic of "weighing correctly"
- Training in the handling and use of small-fire extinguishers for the site employees
- Safety training for construction site personnel.

Audits

The authorities, insurance companies and customers have inspected all facilities during the reporting year. Inspectors and customers confirmed that Siegfried has an effective and integrated risk and environmental management system in place. In an industry comparison, the risk assessment by the HDI Global insurance company revealed no irregularities. Siegfried sites meet the requirements for operational safety and fire protection and are listed among the top 10% in the insurance company's risk benchmark rating. The site in Nantong successfully underwent its first inspection by our insurer in 2017. The Zofingen site was inspected in 2017, whereby a good safety system and adequate fire prevention was attested.

The system of internal audits and safety inspection tours has been well established at the various sites. In Zofingen, 51 internal safety and environmental audits were performed. The audit teams submitted some 250 suggestions for improvement, more than 95% of which were successfully implemented in 2017. Concerning hazardous goods controls, 159 internal transportations by truck and rail were inspected. Defects

2%

of Siegfried's workforce globally are engaged fulltime in safety, health and environmental protection.

6

principles are defined in the Responsible Care program, which strives for continuous improvement in the areas the environment, safety and health.

and complaints were addressed in about 6% of the inspections.

Incidents, Occupational Accidents and Occupational Illnesses

As part of Siegfried's integral risk assessment, in addition to the accident ratios, incidents with property damage or environmental impact have been shown under the parameter "accident points" since 2013. These accident points are determined as follows: 1 point for each day lost, 1 point per accident/occupational illness without days lost, 0.5 points per incident with significant property damage or environmental impact. This allows Siegfried to be more transparent in its reporting of events. The chart below is a cross-comparison between the plants in 2017. Six sites were below the target rate of less than 30 "accident points" per 1 million hours worked. Three sites were unable to meet the target. In Hameln, St. Vulbas and Zofingen, there were several occupational accidents which led to several weeks of working hours being lost. Due to the high accident figures various measures were taken, for example, at the Zofingen site, daily safety inspection tours and weekly meetings with the shift workers on the topic of safety. In addition, awareness of the STOP™ Program was raised, whilst 28 new STOP inspection tour operators were trained, bringing the total to about 100 inspection tour operators. New STOP inspection tour operators were sensitized and advised of their tasks and duties. Together with SUVA (Swiss Council for Accident Prevention) additional campaigns on the topic of "Tripping and Falling" were organized in order to draw attention to the underestimated causes of accidents and to prevent further accidents.

No occupational illnesses or work-related deaths were recorded in 2017. Detailed information on personal accidents will be collected from 2018.

Four production sites were able to reduce the number of occupational accidents (with and without lost days) compared to those of 2016. In Irvine, there were no accidents. The sites in Evionnaz (CH) and Minden (D), were able to reduce occupational accidents by about 20% to 11. This represents 16 occupational accidents per thousand employees. In Hameln (D), the occupational accidents were reduced by over 50% to 17 occupational accidents per thousand employees.

At the sites in Malta, Pennsville (USA), St. Vulbas (F) and Zofingen (CH), no contrary development was observed. The rate of occupational accidents worsened considerably and increased to over 3% in St. Vulbas and Zofingen. In Malta and Pennsville the occupational accident rate was 1.3% and 1.7% respectively.

In Zofingen, the occupational accident rate grew by about one third to a new rate of 33 per thousand employees. In 2016, about 17 occupational accidents were reported. Zofingen, therefore, ranks above the average of the Swiss chemical and pharmaceuticals industry. Most of the injuries were due to tripping and falling accidents. For half of the occupational accidents, no absences from the workplace were recorded. Care was given at the site's own first-aid stations, and the employees were able to return to their workplace.

At the Group level, Siegfried was unable to successfully lower the number of occupational accidents. The occupational accident rate has stagnated for several years at about 15 occupational accidents per thousand employees. Viewed across all sites, apart from Zofingen, most of the accidents, such as tripping, falling, lifting heavy loads and cutting, resulted in minor injuries and no or only short absences from the workplace of a few days.

Ensuring Health

Siegfried maintains process technologies with various containment systems for the development and production of highly active substances and finished dosage forms. Closed handling of substances protects the employees from excessive exposure. Wherever necessary, protective clothing with respirators is available to safeguard the safety of the employees. To minimize the risks of contamination, Siegfried has installed decontamination stations, airlocks and designated changing areas. Compliance with the workplace thresholds and the effectiveness of the technical installations is monitored and periodically tested by SHE.

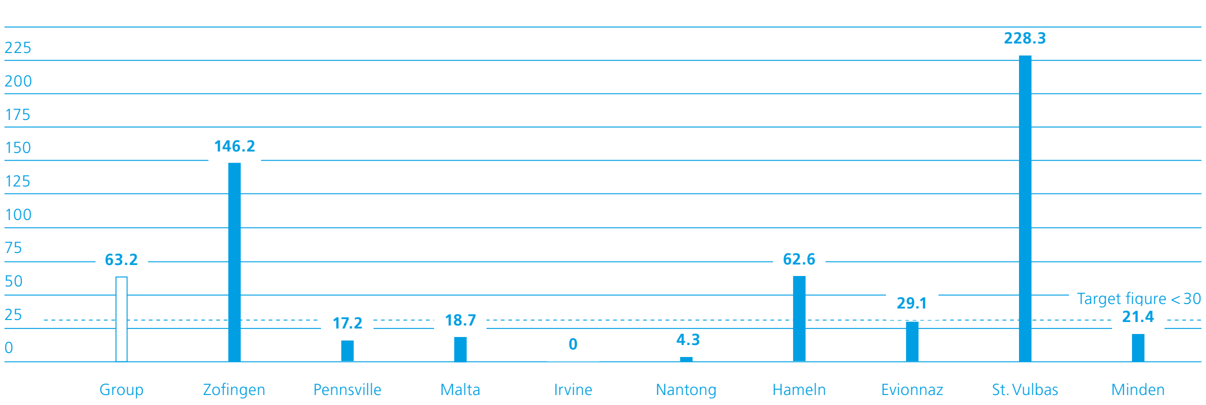
The 2017 accident statistics for each site are as follows:

Incident / 1000 FTE	**2017**	2016	2015	2014	2013
Zofingen	33	24	16	18	17
Pennsville	17	11	34	37	13
Malta	14	7	14	30	7
Irvine	0	8	0	8	16
Nantong	3	0	5	1	0
Hameln	8	17	24	n. a.	n. a.
Minden	12	16	n. a.		
Evionnaz	9	11	n. a.		
St. Vulbas	35	13	n. a.		
Group	16	15	15	14	12
Accent points / 1 million working hours					
Zofingen	146	49	24	60	58
Pennsville	17	87	159	42	17
Malta	19	4	42	70	4
Irvine	0	82	0	22	96
Nantong	4	1	5	2	0
Hameln	63	20	65	n. a.	n. a.
Minden	21	20	n. a.		
Evionnaz	29	46	n. a.		
St. Vulbas	228	50	n. a.		
Group	63	36	40	33	38

The country and gender specific accident rate of occupational accidents and occupational illnesses for 2017 is structured as follows:

	Personal accidents without days lost		**Personal accidents with days lost**		**Days lost**	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**
Switzerland	7	2	34	1	190.5	9.5
USA	2	0	1	0	4	0
Malta	0	0	2	0	4	0
China	1	0	1	0	1	0
Germany	3	0	6	2	32	30
France	1	0	3	0	39	0

Number of accident points per million working hours



An internal workplace hygienist is available to address questions and problems of hygiene at work. Workplaces have been assessed and production equipment classified by means of monitoring. The production equipment is combined in a system evaluation register. Based on this information, the equipment operator or product chemist can assess in advance whether additional steps must be taken regarding exposure when the product is changed. If necessary, the monitoring is repeated.

Training and testing in the use of the correct personal protective equipment at work is ongoing. The on-site trainers are supported by SHE. The internal department for workplace safety evaluates new personal protective items for a variety of applications, tests skin-care products and compiles the information in a company catalog for body protection.

In 2017, again, the annual flu shot was offered in the form of a vaccination campaign at no cost to the employees. As part of the medical care, about 150 employees in Zofingen were examined by the Institute for Occupational Medicine (ifa Baden) and assessed for their capacity to work. These medical check-ups were performed at the direction of SUVA (Swiss Council for Accident Prevention).

Ideas and suggested improvements submitted by employees are evaluated and implemented, if possible. Company sports clubs are available to promote fitness.

Outlook

Siegfried continues to make the reduction of events and workplace accidents a priority by rolling out the STOP™ safety program worldwide. Local initiatives and campaigns support working with an awareness of safety.

To quickly reintegrate injured employees in the work process, alternative workplaces should be provided to optimize internal health management. Such a measure is foreseen for 2018.

All facilities are encouraged to continue sharing information on SHE topics. The purpose is to further harmonize health and safety standards and to implement the global SHE philosophy across all sites.

92

apprentices at 5 Siegfried sites

150

employees in Zofingen were examined by the Institute for Occupational Medicine (ifa Baden) and assessed for their capacity to work.

4. Employees

Siegfried's business success is based on the knowledge, skills, commitment and satisfaction of our employees. In global competition, it is their commitment that makes the decisive difference. Demographic change, shortage of well-trained staff, cooperation among generations and cultures and fast digitalization of work environments all demand a proactive redesign of future work situations and cooperation.

The goal of human resources management at Siegfried is to secure the company's long-term future, offer attractive jobs, increase the organization's competitiveness and flexibility and advance Siegfried's continued growth.

At Siegfried, Global Head HR holds responsibility for the development and implementation of these issues. The definition of priorities and thrusts and the approval of concrete measures are carried out in close cooperation with Siegfried's Executive Committee and the Board of Directors' remuneration committee.

Siegfried's global human resources strategy builds on the following core topics with regard to developing and exploiting Siegfried's potential as a company:
— Efficient organization
— Excellent leadership
— Attractive and responsible employer

Efficient Organization

Recruiting, developing and keeping well-trained employees and maintaining their productivity represents a key factor in Siegfried's success. In an increasingly global and competitive market with growing demands made by customers and the regulating authorities, we aim to recruit employees with a high learning orientation and open-mindedness for new ideas.

Siegfried actively promotes the personal and professional development of employees and managers. We deliberately focus on the development of qualified young employees in management and skilled functions to offer development perspectives and to secure talent, experience and know-how for the company. Based on capabilities and strengths and depending on the company's needs, development measures are agreed upon and followed up during the annual performance and development reviews. In addition to individually defined external and internal training programs, Siegfried encourages employees to develop by taking on additional, demanding tasks and responsibilities or by gaining experience from reassignment to another company site.

Siegfried plans to redesign its leadership training within the coming 12 months and to align training contents to reflect the redefined leadership capabilities.

Professional training at Siegfried plays a significant role in order to meet the future need for skilled employees. With a focus on careers in the areas of laboratory assistant, chemical technician and pharmaceutical technician, Siegfried is currently offering 92 young people attractive training possibilities as well as interesting career opportunities to university graduates within the parameters of trainee programs and internships.

Site	Number of apprentices	in % of number of employees
Zofingen	37	6.80%
Evionnaz	13	4.36%
Hameln	19	4.31%
Minden	14	4.17%
St. Vulbas	9	8.18%

Excellent Leadership

The quality of our managers is decisive for our corporate success and for the satisfaction and commitment of our employees. Owing to their functions, managers are in a position, to a considerable degree, to put their stamp on corporate culture. They contribute decisively toward creating a work environment in which people perform well and innovation is being encouraged.

In 2017, the Siegfried leadership model – derived from corporate strategy and corporate values – was introduced at all sites. This leadership model including the key corporate values illustrates, on the one hand, what we expect from our managers and, on the other hand, what employees may expect from a manager. Siegfried's performance management process represents a key element of leadership, of the development of our employees and of monitoring goals with relevance for the company. The process is implemented uniformly at all sites and, where possible, across all levels of hierarchy. The scope of this process foresees a target-setting meeting at the start of the year, an appraisal interview at the end of the year and a mid-year review. Corporate targets as well as functional and individual targets are set for each employee. Weighting of the target categories varies in accordance with the functional level. Corporate targets are weighted more strongly at the management level, while individual targets enjoy higher weighting at the employee level. In terms of strengthening a uniform performance culture, an employee's individual performance within his or her management team is discussed within the parameters of calibration meetings. This process step ensures that performance assessment is carried out uniformly and balanced, objectively and fairly across all functions.

In 2017, a leadership workshop was again carried out at each of the sites for local management teams, the CEO and members of Executive Management to discuss Siegfried's principles of leadership and values in a local context and to define specific measures for their consolidation. Furthermore, in the year under review, the Siegfried Leadership Convention was carried out during which the 60 top members of management jointly discussed strategy and the significance of values and leadership principles for its implementation.

Attractive and Responsible Employer

Siegfried aims to create and maintain secure and attractive jobs at all of its sites providing competitive working conditions while reconciling the interests of the company with those of its employees.

In addition to providing attractive employment conditions, which along with a market-oriented base salary include performance-related variable compensation elements and participation plans (also see detailed information in Remuneration Report, page 33ff), Siegfried attaches great importance to maintaining a balance between work, family and leisure time allowing our employees to be and remain efficient, creative and successful. Important elements in achieving this goal are given by the possibility to designing worktime flexibly, working part-time and taking unpaid leave.

Siegfried places high priority on a discrimination-free working environment in which employees develop personally and professionally, advance innovation and deliver superior performance. We do not tolerate any form of discrimination based on sex, race, ethnic background, religion or ideology as well as physical or mental disabilities. We consider our corporate culture to be an important foundation. It is based on the values of respect, loyalty, credibility, sustainability and compliance, and our Code of Business Conduct which was introduced at all sites in the course of 2017. For all Siegfried employees, the values and the Code of Business Conduct bindingly and uniformly define the expectations concerning our interactions with one another.

We put emphasis on regular, clear and open communication allowing all employees to develop a good understanding of the strategy and the economic interrelations and the resulting acceptance of corporate goals and department objectives. Information events and workshops are carried out several times a year with the aim of promoting dialog and an exchange of information between employees and higher management. In addition, the information events and workshops serve to present current business developments and information concerning strategy and other important issues and projects.

Siegfried looks back on a long tradition of solution-driven cooperation with employees in the spirit of social partnership. Siegfried respects the right of each employee to join an employee representation or a union. We cultivate direct, transparent and constructive dialog with all representatives of employees and unions. Joint information meetings and discussions

Sustainability Figures

Employees as per 31 December[1]		2017		2016	
Permanent employees					
Zofingen, Switzerland	Number/total	543		529	
Evionnaz, Switzerland	Number/total	298		351	
St. Vulbas, France	Number/total	110		129	
Pennsville, USA	Number/total	159		159	
Irvine, USA	Number/total	112		102	
Malta	Number/total	128		122	
Nantong, China	Number/total	204		212	
Hameln, Germany	Number/total	441		433	
Minden, Germany	Number/total	336		347	
Group	Number/total	2 331		2 384	
Full-time employees	Number/%	2 126	91.2%	2 175	91.2%
Part-time employees	Number/%	205	8.8%	209	8.8%
Apprentices/number of apprentices of the total stock	Number/%	92	3.9%	84	3.5%
Temporary employees					
Zofingen, Switzerland	Number/total	107		104	
Evionnaz, Switzerland	Number/total	13		35	
St. Vulbas, France	Number/total	16		2	
Pennsville, USA	Number/total	2		2	
Irvine, USA	Number/total	7		17	
Malta	Number/total	4		7	
Nantong, China	Number/total	2		8	
Hameln, Germany	Number/total	63		49	
Minden, Germany	Number/total	74		59	
Group	Number/total	288		283	
Diversity[2]					
Female employees	Number/%	670	28.7%	661	27.7%
Male employees	Number/%	1 661	71.3%	1 723	72.3%
Women upper management	Number/%	4	0.2%	4	0.2%
Male upper management	Number/%	42	1.8%	41	1.7%
Women middle and lower management	Number/%	85	3.6%	88	3.7%
Male middle and lower management[3]	Number/%	243	10.4%	298	12.5%
Female full-time employees	Number/%	498	74.3%	480	72.6%
Female part-time employees	Number/%	172	25.7%	181	27.4%
Male full-time employees	Number/%	1 631	98.2%	1 695	98.4%
Male part-time employees	Number/%	30	1.8%	28	1.6%
Demographics					
Employees up to age 30	Number/%	359	15.4%	354	14.8%
Employees between age 31 and age 50	Number/%	1 309	56.2%	1 368	57.4%
Employees above age 50	Number/%	663	28.4%	662	27.8%
Average age of employees	Age	41.7		41.7	
Attrition rate					
Exits/attrition rate female employees	Number/%	69	3.0%	51	2.2%
Exits/attrition rate male employees	Number/%	240	10.3%	168	7.0%
Total turnover rate	Number/%	309	13.3%	219	9.2%
Lost working days due to accidents and sickness					
Lost working days due to work-related illness	Number of days/%	18.0	0.1%	0.0	0.0%
Lost working days due to illness[4]	Number of days/%	22 529.4	92.0%	21 262.2	94.2%
Lost working days work-related accidents/quota of days lost	Number of days/%	423.5	1.7%	361.5	1.6%
Lost working days not work-related accidents/quota of days lost[4]	Number of days/%	1 509.1	6.2%	949.5	4.2%
Total lost working days	Number of days/%	24 480.0	100.0%	22 573.1	100.0%
Lost working days per employee	Ø day per Number/%	10.5	4.8%	9.5	4.3%

[1] Source: Siegfried ERP system (SAP HR), as per 31.12.
[2] Only related to permanent employees
[3] Deviation from 2016 data due to correction of data after implementation of Siegfried grading structure in Minden and adjustment of reporting to global structure for Nantong
[4] Hameln and Minden: Not work related accidents/quota of days lost are included in section "lost working days due to illness"

concerning Siegfried's business development and measures concerning workplace and co-determination aspects are carried out at regular intervals. Collective labor agreements are available to substantial groups of employees in Switzerland, Germany, France, Malta, China and the USA. A total of 1 067 individuals, or 45.8% of all employees, are subject to a collective employment agreement.

GRI102–41 At all sites we unconditionally respect the local statutory regulations concerning labor and the international standards of the International Labor Organization (ILO). At all sites Siegfried remunerates its employees above the legal minimum wage and does not employ minors. At Siegfried, part-time employees and employees with a fixed-term work contract are treated in the same way as full-time employees with regard to basic pay and additional benefits, especially pension provisions, accident and daily sickness benefits.

Employment Development

As at December 31, 2017, the Siegfried Group employed 2 331 employees worldwide. The number dropped slightly compared to the previous year owing to staff reductions at the Evionnaz and St. Vulbas site due to outsourcing of Maintenance activities to Bilfinger Industrial Services and to realizing synergy potentials in connection with the acquisition of the BASF sites in 2015. As a consequence of the aforementioned effects the group-wide fluctuation rate increased to 13.3% in the year under review (2016: 9.2%). The fluctuation rate includes all terminations of contract (either on the part of the employee or the employer), outsourcing as well as retirees and deaths.

Siegfried employs about 169 external staff worldwide. They are employed mainly in production and production-related fields such as laboratory and warehouse, to cover for production peaks and long-term absences. All of Siegfried's partners relating to external employees maintain legal regulations and pay minimum wages. Basic salaries of external employees are comparable to those of Siegfried's own employees.

Outlook

We plan to further increase the effectiveness of our human resources activities and the performance of our managers within the coming months.

Our focus will be on higher flexibility and agility as well as maintaining our organization's efficiency. In the coming years, Siegfried will therefore continue to focus strongly on the empowerment of employees and managers while putting even greater emphasis on preventive health management.

2331

employees working for Siegfried worldwide at the end of 2017

45.8%

of all employees or 1067 individuals are subject to a collective employment agreement

5. Corporate Social Responsibility

5.1 Local Population

Siegfried's responsibility extends beyond the direct influence of the company. Where it is in our power, we contribute a sustainable development of society. The commitment to society is firmly anchored as a central component in our conception of ourselves. In particular, we invest in sustainable development and promotion of education projects and we support various local associations. We are convinced that our commitment is to the benefit of the local inhabitants.

As a responsible economic power and employer, Siegfried supports social projects and institutions as well as culture and sports clubs in the communities surrounding our sites. A focus is put on education projects, especially in science, to put young people in contact with science as early as possible, and to show them career opportunities in this field. Siegfried annually budgets a considerable amount for such activities. Siegfried is also committed to the other sites and provides a budget to the sites.

Siegfried cultivates direct contact with the local authorities. At regular meetings with local leaders, Siegfried engages in the concerns of the local population. The responsible employees at the various sites take note of the concrete desires and suggestions and, if feasible, implement them, especially those concerning safety and environmental protection. At the various sites, safety brochures are distributed to the site's neighboring population, such as the "Neighborhood Brochure" in Minden. As a result, Siegfried is a popular and well-respected employer. There are no concrete disputes with and/or unfulfilled requests from the general public and the political leaders at any site.

In Switzerland, the focus is on the Zofingen and Canton of Aargau region. Siegfried supports, for example:

- Social projects in Switzerland
- Political involvement of employees by means of flexible working time regulations
- Culture and sports clubs in the wider surroundings
- Youth work.

Outlook

In the future, Siegfried will continue to maintain its social responsibility and its memberships and to cultivate contact with the local population at all sites. By doing so, the company creates a basis of trust. The goal is to also increasingly establish these commitments on a cross-site basis and thus better utilize the synergies arising among the various sites and countries and regions.

5.2 Political Representation of Interests

Reliable framework conditions and societal acceptance for our corporate goals make it possible for Siegfried to operate successfully in the long-term. Dialogue with politics, government and the society in general is a part of Siegfried's sustainable corporate management and offers the opportunity to find viable solutions. This dialogue is subject to Siegfried's corporate principles and follows the values of honesty and objectivity.

In exchanges with political committees and decision-makers our aim is obtain good framework conditions for industry in general and especially for the chemical-pharmaceutical industry. We are committed to a competitive site, an innovative environment as a basis for research and development and an excellent education system, both in the occupational and the academic areas. Global free access to markets is of great importance for Siegfried at all sites.

Important current issues are:

- Research and innovation
- Education
- Open borders and thus the opportunity to find the best talent for Siegfried
- Free movement of goods
- Comparable conditions for all manufacturers worldwide, including what involves the regulatory environment

For these issues, Siegfried engages itself throughout Europe, at its headquarters in Switzerland and at the sites.

Siegfried provides support especially in connection with referendums in Switzerland and, occasionally, political parties or candidates which share the company's political goals. Siegfried spent almost 10 000 Swiss francs in the reporting year on referendums in Switzerland, which concern the interests of business in general and companies in the chemical and pharmaceutical industries in particular. Direct support to business-friendly parties amounted to about 4000 Swiss francs. Candidates were not supported directly in the reporting year. Siegfried did not provide other non-cash benefits to either parties or individual politicians.

Furthermore, Siegfried is a member of scienceindustries, the Swiss Chemie Pharma Biotec economic umbrella organization; the Swiss Society for Chemistry (SCU); and the Swiss Society for Health Policy. Siegfried is also a member of Park InnovAare, an organization which merges economy and science in the Canton of Aargau. The manager of Pharmapark Zofingen has a seat on the board of "scienceindustries". He is the vice-president of the Aargau Chamber of Industry and Commerce AIHK and president of the Zofingen Economic Region Association WRZ.

The additional memberships of the Siegfried Group and the companies at the individual sites are:

Group		European Fine Chemical Group (EFCG); Sector group of the European Chemical Industry Council (Cefic)
		scienceindustries Chemie, Pharma, Biotech Economic Association Switzerland
		Swiss-American Chamber of Commerce
		Swiss-Chinese Chamber of Commerce
		The Association of Swiss Enterprises in Deutschland (VSUD)
		Avenir Suisse
		DCAT Drug, Chemical, & Associated Technologies Association, USA
		SOCMA Society of Chemical Manufacturers and Affiliates, USA
Zofingen	Switzerland	Aargau Chamber of Industry and Commerce (AIHK)
		Zofingen Economic Region Association (WRZ)
		Park InnovAARE
Evionnaz	Switzerland	Chambre Valaisanne de Commerce et d'Industrie
		Groupement Romand Industrie Pharma
		Union Industriels Valaisans
Hameln	Germany	AdU (Employers' Association of Business in Weserbergland)
		ChemNord (Employers' Association of the Chemical Industry in Northern Germany
		BME (Bundesverband Materialwirtschaft, Einkauf und Logistik)
		Weserbergland AG (network of businesses)
Minden	Germany	Arbeitgeberverband für die Chemische Industrie Ostwestfalen-Lippe e.V.
		East Westphalia Chamber of Industry and Commerce (IHK)
		Association of the Chemical Industries (VCI)
St. Vulbas	France	Union des Industries Chimiques (UIC)
		Mouvement des entreprises de France (MEDEF)
		Plaine de l'Ain Industrial Park (PIPA)
Hal Far	Malta	Malta Chamber of Commerce
		Malta Employers Association
		Foundation for Human Resources Development
Pennsville	USA	SOCMA Society of Chemical Manufacturers and Affiliates
		NJBIA (New Jersey Business & Industry Association)
		Salem County Chamber of Commerce
		Employers Association of New Jersey
Irvine	USA	International Society of Pharmaceutical Engineers (ISPE)
		Parenteral Drug Association (PDA)
		American Society of Quality (ASQ)
Nantong	China	SwissCham Shanghai
		Nantong Pharmaceutical Association

Please find the detailed GRI Content Index on the internet at report.siegfried.ch

Financial Report 2017

Following distinctive growth in the preceding years, the Siegfried Group reports a gratifying result for 2017. With sales of 750.5 million Swiss francs, the company has set a new record in its history of more than 140 years.

Financial Commentary 2017

Dr. Reto Suter
Chief Financial Officer

Growth, widening of margins, significant increase in the operating cash flow and the free cash flow

In the financial year 2017 Siegfried increased revenue to CHF 750.5 million (prior year CHF 717.7 million, +4.6% in CHF or 3.8% in local currencies). Scale effects and a favourable sales mix resulted in a significantly higher gross profit (CHF 138.8 million). The EBITDA (CHF 114.0 million), the EBIT (CHF 64.6 million) and the net profit (CHF 39.7 million) were also significantly higher than in the prior year. This sustained growth is reflected in a margin expansion at all levels: the EBITDA margin was 15.2% (prior year: 13.5%). The EBIT margin (8.6%, prior year 6.5%) and the net profit margin (5.3%, prior year 3.9%) have also improved.

The cash flow from operating activities rose significantly to CHF 84.4 million. Net of investments there remains a free cash flow of CHF 32.1 million.

Strong disproportionate growth in EBITDA

The revenue of CHF 750.5 million comprise sales in the field of Drug Substance of CHF 580.7 million (prior year CHF 557.9 million) and sales in the field of Drug Products of CHF 169.8 million (prior year CHF 159.8 million). The gross profit rose by 27.1% to CHF 138.8 million. The gross profit margin increased by 3.3% to 18.5%.

Marketing and sales costs increased slightly compared with the prior year to CHF 16.2 million. Research and development costs reflect the expansion of this discipline in the last year and have risen to CHF 25.6 million. Administration and general overhead costs increased to CHF 38.6 million.

The result is an EBITDA of CHF 114.0 million, a significant increase by 17.8%.

Lower finance expenses, income taxes marked by external effects

The financial result of CHF –8.3 million turns out much better than in the prior year (CHF –12.0 million). This is a consequence of lower financing costs of CHF 8.2 million (prior year CHF 12.6 million). Important here are above all the lower charges for debt interest and fees of CHF 3.7 million (prior year CHF 7.8 million).

In 2017 the tax expense amounted to CHF 16.6 million. It is significantly marked by external effects, above all a major tax rate reduction in the USA. As a result the group's expected average tax rate in the prior year of 21.3% falls this year to 17.9%. On the other hand there is a negative effect from the tax rate reduction. This represents 14.8% income tax percentage points, or half of the effective income tax rate for the current year of 29.4%.

Despite this non-recurring tax effect the net profit is higher at CHF 39.7 million, an increase of 42.4% compared with the prior year. The undiluted earnings per share (EPS) amount to CHF 10.01, the diluted earnings per share to CHF 9.71 (prior year EPS CHF 7.18, diluted EPS CHF 7.04).

Key Figures

	2017	2016	Change CHF (LC)
Net sales (million CHF)	**750.5**	717.7	+4.6% (+3.8%)
Gross profit (million CHF)	**138.8**	109.2	27.1%
Gross profit margin (%)	18.5%	15.2%	
EBITDA (million CHF)	**114.0**	96.7	17.8%
EBITDA margin (%)	15.2%	13.5%	
EBIT (operating result) (million CHF)	**64.6**	46.7	38.2%
EBIT margin (%)	8.6%	6.5%	
Net profit (million CHF)	**39.7**	27.9	42.4%
Net profit-margin (%)	5.3%	3.9%	
Non-diluted earnings per share (CHF)	10.01	7.18	39.4%
Diluted earnings per share (CHF)	9.71	7.04	37.9%
Cash flow from operating activities (million CHF)	**84.4**	57.1	47.8%
Free cash flow (million CHF)	**32.1**	–11.1	390.0%
Investment in property, plant and equipment and intangible assets (million CHF)	52.8	68.4	–22.8%
	December 31, 2017	December 31, 2016	Change
Equity (million CHF)	**673.4**	660.7	1.9%
Total assets (million CHF)	**1 068.6**	1 021.4	4.6%
Equity ratio	63.0%	64.7%	
Employees (number of FTEs)	2 260	2 315	–2.4%

Significant increase in the operating cash flow and the free cash flow

In 2017 Siegfried generated an operating cash flow after changes in net working capital of CHF 84.4 million (prior year CHF 57.1 million). This represents a major increase of 47.8%. During the course of the year inventories were reduced by CHF 1.2 million. During the year trade payables were extended by CHF 14.3 million. As in the prior year in the fourth quarter high sales were generated, so that at the year-end above average receivables were outstanding. In aggregate the net current assets grew by CHF 13.6 million.

Investments in fixed and intangible assets were lower than in the prior year and amounted to CHF 52.8 million (prior year CHF 68.4 million). After the past years with high investments, in 2017 the investment activity has by and large returned to normal.

In 2017 a net CHF 19.9 million was expended for the purchase of treasury shares. On October 2, 2017 RAG-Stiftung Beteiligungsgesellschaft mbH exercised its conversion right on the privately placed hybrid convertible loan amounting to CHF 60 million. The conversion did not require an increase in Siegfried Holding AG's share capital, because it was possible to service it out of the company's treasury shares. The equity base was strengthened by this conversion. Interest paid and bank expenses aggregated in 2017 to CHF 12.2 million. The distribution to the shareholders undertaken in April 2017 out of the capital contribution reserves was CHF 7.8 million.

At the end of the year Siegfried had more than CHF 34.1 million in cash and cash equivalents. The loans outstanding amounted to gross CHF 100.0 million. The net debt at the end of 2017 was CHF 65.9 million. At the end of the year the ratio of net debt to the EBITDA was 0.6, the equity ratio was 63.0%. Siegfried therefore has available the necessary debt capacity to finance further growth measures.

The Board of Directors will propose to the General Meeting to be held on April 20, 2018 a distribution out capital contribution reserves of CHF 2.40 per share, which based on the number of shares entitled to a dividend will result in a distribution of approx. CHF 9.9 million.

Dr. Reto Suter,
CFO

Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	2	500 209	488 234
Intangible assets	3	9 425	9 048
Investments in associated companies and joint ventures	4	475	473
Financial and other non-current assets	5	3 513	3 524
Employer contribution reserves	17	9 222	9 151
Deferred tax assets	6	32 246	42 803
Total non-current assets		**555 090**	**553 233**
Current assets			
Inventories	7	248 294	243 669
Trade receivables	8	189 160	155 771
Other current assets		35 403	29 029
Accrued income and prepaid expenses		6 034	7 115
Current income taxes		192	433
Derivative financial instruments	9	296	471
Cash and cash equivalents		34 137	31 636
Total current assets		**513 516**	**468 124**
Total assets		**1 068 606**	**1 021 357**
Liabilities and equity			
Equity			
Share capital		8 422	8 333
Treasury shares		−21 601	−51 787
Capital reserves		74 193	75 699
Hybrid capital		255 985	315 985
Retained earnings		356 385	312 506
Total equity		**673 384**	**660 736**
Non-current liabilities			
Non-current financial liabilities	12	100 000	91 107
Non-current provisions	13	16 951	25 105
Deferred tax liabilities	6	6 948	4 638
Other non-current liabilities	14	1 392	1 869
Non-current pension liabilities	17	122 201	114 268
Total non-current liabilities		**247 492**	**236 987**
Current liabilities			
Trade payables		71 316	55 336
Other current liabilities	16	19 221	18 017
Accrued expenses and deferred income	15	44 874	37 638
Derivative financial instruments	9	97	385
Current pension liabilities	17	406	136
Current provisions	13	6 917	9 669
Current income tax liabilities		4 899	2 453
Total current liabilities		**147 730**	**123 634**
Total liabilities		**395 222**	**360 621**
Total liabilities and equity		**1 068 606**	**1 021 357**

* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2017	2016
Net sales	26	750 468	717 729
Cost of goods sold		−611 658	−608 509
Gross profit		**138 810**	**109 220**
Marketing and sales costs		−16 228	−16 028
Research and development costs		−25 631	−21 193
Administration and general overhead costs		−38 631	−31 488
Other operating income	19	6 264	6 239
Income of associated companies		−8	−36
Operating result		**64 576**	**46 714**
Financial income	20	35	25
Financial expenses	20	−8 208	−12 593
Exchange rate differences	20	−96	587
Profit before income taxes		**56 307**	**34 733**
Income taxes	6	−16 575	−6 827
Net profit		**39 732**	**27 906**
Non-diluted earnings per share (CHF)	21	10.01	7.18
Diluted earnings per share (CHF)	21	9.71	7.04

* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

Consolidated Statement of Cash Flows

In 1000 CHF (for the years ended December 31)	Notes*	**2017**	2016
Net profit		**39 732**	**27 906**
Depreciation and impairment of PP&E and intangible assets	2,3	49 374	50 000
Change in provisions	13	−8 850	−1 940
Other non-cash items		−3 645	−2 734
Share-based payments	18	4 891	3 830
Exchange rate differences	20	96	−586
Financial income	20	−35	−25
Financial expenses	20	8 209	12 593
Income taxes	6	16 575	6 827
Income of associated companies	4	8	36
Change in net working capital:			
Trade receivables		−33 734	−30 210
Other current assets and accruals		−4 091	−4 274
Inventories		1 241	13 881
Trade payables		14 313	−7 791
Other current liabilities and accruals		8 925	−1 165
Payments out of provisions and pension liabilities		−6 521	−5 042
Income taxes paid		−2 066	−4 193
Cash flow from operating activities		**84 422**	**57 113**
Purchase of property, plant and equipment	2	−51 918	−64 909
Proceeds from disposal of property, plant and equipment		545	138
Purchase of intangible and other assets	3	−922	−3 516
Proceeds from disposal of intangible assets		–	97
Acquisition of Group companies	3	–	2 157
Investments in financial fixed assets		14	249
Interest received		23	11
Dividend received		12	11
Cash flow from investing activities		**−52 246**	**−65 762**
Free cash flow		**32 127**	**−11 077**
Capital increase		1 371	1 557
Issuance of hybrid capital	11	–	158 490
Change in financial liabilities	12	9 024	−132 856
Change in other non-current liabilities		−448	456
Purchase/Disposal of treasury shares, net		−19 894	−13 242
Interest paid and bank charges		−12 241	−12 754
Dividend to the shareholders of Siegfried Holding AG		−7 831	−6 998
Cash flow from financing activities		**−30 019**	**−5 347**
Net change in cash and cash equivalents		**2 157**	**−13 996**
Cash and cash equivalents 1/1		31 636	47 386
Net effect of exchange rate changes on cash		344	−1 754
Cash and cash equivalents 31/12		34 137	31 636

* The Notes on pages 56–63 are an integral part of the Group Financial Statements.

Consolidated Statement of Changes in Equity

In 1000 CHF	Share capital	Treasury shares	Capital reserves	Hybrid capital	Value fluctuations of financial instruments[1]	Accumulated profits[1]	Offset Goodwill[1,2]	Cumulative translation adjustments[1]	Total equity
As of January 1, 2016	**8 300**	**−37 197**	**79 753**	**157 495**	**−898**	**510 829**	**−160 010**	**−65 618**	**492 654**
Net profit	–	–	–	–	–	27 906	–	–	27 906
Dividends	–	–	−6 998	–	–	–	–	–	−6 998
Change in hybrid capital	–	–	–	158 490	–	−5 577	–	–	152 913
Changes in financial instruments	–	–	–	–	1 059	–	–	–	1 059
Employee share plan	–	–	–	–	–	2 410	–	–	2 410
Change in treasury shares	–	−14 590	–	–	–	2 330	–	–	−12 261
Capital increase	33	–	2 944	–	–	–	–	–	2 977
Goodwill allocation	–	–	–	–	–	–	810	–	810
Currency translation differences	–	–	–	–	–	–	–	−735	−735
As of December 31, 2016	**8 333**	**−51 787**	**75 699**	**315 985**	**161**	**537 898**	**−159 200**	**−66 353**	**660 736**
Net profit	–	–	–	–	–	39 732	–	–	39 732
Dividends	–	–	−7 831	–	–	–	–	–	−7 831
Change in hybrid capital	–	–	–	−60 000	–	−8 021	–	–	−68 021
Changes in financial instruments	–	–	–	–	740	–	–	–	740
Employee share plan	–	–	–	–	–	−260	–	–	−260
Change in treasury shares	–	30 186	–	–	–	9 881	–	–	40 067
Capital increase	89	–	6 325	–	–	–	–	–	6 414
Currency translation differences	–	–	–	–	–	–	–	1 807	1 807
As of December 31, 2017	**8 422**	**−21 601**	**74 193**	**255 985**	**901**	**579 230**	**−159 200**	**−64 546**	**673 384**

[1] In the Consolidated Balance Sheet these items are disclosed as retained earnings.
[2] For details refer to Note 3 Intangible Assets.

The share capital of Siegfried Holding AG increased from CHF 8.33 million to CHF 8.42 million as a result of the issue of shares under employee benefit programmes. It is divided into 4 210 915 registered shares each with a nominal value of CHF 2 (2016: 4 166 591 registered shares), see Note 11.

RAG-Stiftung Beteiligungsgesellschaft mbh exercised its conversion right on the privately place hybrid convertible loan amounting to CHF 60 million effective October 2, 2017. The conversion did not require an increase in the share capital of Siegfried Holding AG, because it was serviced by the company's treasury shares.

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 March 9, 2018, for presentation to the General Meeting held on April 20, 2018.

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.

Changes in Accounting Principles

In 2017 the Siegfried Group for the first time cumulatively fulfilled under individual long-term contracts the requirements for recognition in accordance with the Percentage of Completion Method (PoCM) and therefore for the first time recognized revenues and profit in line with the progress of the contracts. The disclosures are set out in the Accounting Principles and in Notes 7 and 26.

In assessing the value of deferred tax assets from loss carry forwards, the relevant planning horizon was adapted to the available medium-term planning, which covers 5 years. Using the longer planning horizon of 5 years instead of the earlier 3 years has no significant effect on the estimate of the deferred tax assets from loss carry forwards in the prior year.

Accounting Principles

Business Combinations

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

Segment Reporting

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

Foreign Currency Translation

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

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

Balance Sheet

Year-end rates	2017	2016
1 USD	0.982	1.021
1 EUR	1.172	1.075
100 RMB	15.027	14.681

Income Statement

Average rates	2017	2016
1 USD	0.985	0.985
1 EUR	1.112	1.090
100 RMB	14.570	14.830

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 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 in the Income Statement.

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

Share-Based Payments

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

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

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

Profit Sharing / Bonus Plans

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

Taxes

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

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

Research and Development

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

Dividends

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

Government Grants

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

Transactions with Related Parties

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

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

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

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

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

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

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

At its strategy meeting on July 3 and 4, 2017, 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 20, 2017. The Annual Report on the Internal Control System, including its assessment, was also approved at the meeting on November 20, 2017. The risk management and the ICS reports were also pre-discussed in the Audit Committee on November 13, 2017.

Financial Risk Management

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

Market Risks

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

Foreign Exchange Risks

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

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

Interest Rate Risks

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

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

Market Value Risks

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

Liquidity Risks

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

Credit Risks / Counterparty Risks

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

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

Capital Risk

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

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

Derivative Financial Instruments

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

Estimates, Assumptions and Accounting Judgments

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

Impairment Test of Non-Financial Non-Current Assets

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

Deferred Tax Assets

Deferred tax benefits from unused tax losses and deductible temporary differences are considered to the extent to which it is probable that future profits will be earned, against which they can be used. Management assesses the capitalization of 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, 2017, Siegfried had available unrecognized tax losses and tax credits of CHF 134.3 million (see also Note 6).

Environmental Provisions

Provisions relate to obligations to eliminate environmental pollution. Future decontamination costs depend on the regulatory status and management decisions on future construction projects. Depending on the nature and scope of the construction projects realized, the obligation to eliminate detrimental effects on the environment is increased or reduced. The environmental provision amounting to CHF 22.7 million would as a consequence be higher or lower (see also Note 13).

1. Scope of Consolidation

The consolidation includes the following companies:

Group companies	Share capital	in LC	
Operating			
Siegfried AG, Zofingen (Switzerland)	20 000 000	CHF	100.00%
Siegfried USA, LLC, Pennsville (USA)	500 000	USD	100.00%
Siegfried Malta Ltd, Valletta (Malta)	100 000	EUR	100.00%
Alliance Medical Products Inc., Irvine (USA)	116 521	USD	100.00%
Siegfried (Nantong) Pharmaceuticals Co. Ltd, Nantong (China)	422 296 722	CNY	100.00%
hameln pharmaceuticals gmbh, Hameln (Germany)	750 000	EUR	100.00%
Siegfried Evionnaz SA, Evionnaz (Switzerland)	1 000 000	CHF	100.00%
Siegried PharmaChemikalien Minden GmbH, Minden (Germany)	50 000	EUR	100.00%
Siegfried St. Vulbas SAS, Saint Vulbas (France)	15 200 000	EUR	100.00%
Finance and administration			
Siegfried Holding AG, Zofingen (Switzerland)	8 421 830	CHF	100.00%
Siegfried Finance AG, Zofingen (Switzerland)	14 000 000	CHF	100.00%
Siegfried Deutschland Holding GmbH, Lörrach (Germany)	1 790 000	EUR	100.00%
Siegfried USA Holding Inc., Pennsville (USA)	3 000	USD	100.00%
Siegfried GmbH, Hameln (Germany)	25 000	EUR	100.00%
Siegfried Hong Kong Ltd, Hong Kong (China)	1 000	HKD	100.00%
Siegfried Deutschland Real Estate GmbH, Lörrach (Germany)	25 000	EUR	100.00%
hameln rds gmbh, Hameln (Germany)	30 000	EUR	100.00%
hameln real estate gmbh + co. kg, Hameln (Germany)	25 000	EUR	100.00%
Joint venture			
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	10 542 708	CNY	49.00%

Siegfried International AG was merged into Siegfried AG as of November 30, 2017. Furthermore, the domicile of Siegfried GmbH was relocated to Hameln (Germany). The share capital of Siegfried Holding AG increased in 2017 following the issue of shares out of the conditional capital under employee benefit programmes, see Note 11. In 2017 the scope of Siegfried's consolidation and the corresponding shareholdings remained unchanged.

2. Property, Plant and Equipment

In 1000 CHF	Land	Buildings and leashold improvements	Machinery and equipment	Prepayments	Assets under construction	Total
Acquisition costs						
As of January 1, 2016	23 806	297 373	976 044	–295	163 008	1 459 936
Translation differences	–23	465	562	–55	–1 894	–945
Additions	17	4 184	20 388	–536	45 383	69 436
Disposals	–	–32	–1 291	–142	–	–1 465
Reclassifications	–	10 748	–34 317	4	–96 137	–119 702
As of December 31, 2016	**23 800**	**312 738**	**961 386**	**–1 024**	**110 360**	**1 407 260**
Translation differences	405	9 705	34 567	98	971	45 746
Additions	105	1 687	9 829	1 678	38 847	52 146
Disposals	–209	–706	–5 654	–	–1	–6 570
Reclassifications	–	2 600	27 428	–	–30 713	–685
As of December 31, 2017	**24 101**	**326 024**	**1 027 556**	**752**	**119 464**	**1 497 897**
Accumulated depreciation and impairments						
As of January 1, 2016	–	191 362	798 614	–	–	989 976
Translation differences	–	418	775	–	–	1 193
Depreciation charge	–	8 263	40 622	–	–	48 885
Disposals	–	–18	–1 308	–	–	–1 326
Reclassifications	–	–12 760	–106 942	–	–	–119 702
As of December 31, 2016	**–**	**187 265**	**731 761**	**–**	**–**	**919 026**
Translation differences	–	6 982	29 468	–	–	36 450
Depreciation charge	–	8 245	39 895	–	–	48 140
Disposals	–	–705	–5 223	–	–	–5 928
As of December 31, 2017	**–**	**201 787**	**795 901**	**–**	**–**	**997 688**
Net book value 31/12/2017	**24 101**	**124 237**	**231 655**	**752**	**119 464**	**500 209**
Net book value 31/12/2016	**23 800**	**125 473**	**229 625**	**–1 024**	**110 360**	**488 234**

At December 31, 2017, Land included CHF 6.4 million (2016: CHF 6.4 million) undeveloped property.

As of December 31, 2017, commitments for the purchase of property, plant and equipment amounted to CHF 5.1 million (2016: CHF 7.9 million).

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

3. Intangible Assets

In 1000 CHF	Licenses, patents	Trademarks	Software	Others	Total
Acquisition costs					
As of January 1, 2016	11 856	7 873	12 410	5 045	37 184
Translation differences	356	211	75	–177	465
Additions	–	17	111	40	168
Disposals	–	–97	–123	–	–220
Reclassification	–	–	–1 561	–	–1 561
As of December 31, 2016	**12 212**	**8 004**	**10 912**	**4 908**	**36 036**
Translation differences	–430	–218	53	139	–456
Additions	–	–	472	450	922
Disposals	–	–	–23	–	–23
Reclassification	–	–1 285	1 981	–11	685
As of December 31, 2017	**11 782**	**6 501**	**13 395**	**5 486**	**37 164**
Accumulated amortization and impairments					
As of January 1, 2016	6 938	7 773	11 933	401	27 045
Translation differences	244	212	70	–12	514
Amortization charge	648	3	332	130	1 113
Disposals	–	–	–123	–	–123
Reclassification	–	–	–1 561	–	–1 561
As of December 31, 2016	**7 830**	**7 988**	**10 651**	**519**	**26 988**
Translation differences	–293	–217	26	24	–460
Amortization charge	648	–	484	102	1 234
Disposals	–	–	–23	–	–23
Reclassification	–	–1 270	1 271	–1	–
As of December 31, 2017	**8 185**	**6 501**	**12 409**	**644**	**27 739**
Net book value December 31, 2017	**3 597**	**–**	**986**	**4 842**	**9 425**
Net book value December 31, 2016	**4 382**	**16**	**261**	**4 389**	**9 048**

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)	2017	2016
Theoretical Goodwill		
As of January 1	159 200	160 010
Additions[1]	–	–810
As of December 31	**159 200**	**159 200**
Accumulated amortization		
As of January 1	30 219	19 605
Amortization	10 614	10 614
As of December 31	**40 833**	**30 219**
Theoretical Goodwill December 31	**118 367**	**128 981**

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

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

In 1000 CHF (for the years ended December 31)	2017	2016
Operating result according to Income Statement	64 576	46 714
Amortization of Goodwill	–10 614	–10 614
Theoretical operating result incl. amortization of Goodwill	**53 962**	**36 100**
Net profit according to Income Statement	39 732	27 906
Amortization of Goodwill	–10 614	–10 614
Theoretical net profit incl. amortization of Goodwill	**29 118**	**17 292**

4. Investment in Associated Companies and Joint Ventures

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

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

5. Financial and Other Non-Current Assets

Financial assets are classified in the following categories:

In 1000 CHF	2017	2016
Other non-current financial assets	30	30
Other non-current assets	3 483	3 494
Total financial and other non-current assets	**3 513**	**3 524**

The other non-current assets include CHF 2.9 million (2016: CHF 2.9 million) deposited as a security for bank guarantees issued in Germany and France in connection with the acquisition of the BASF companies.

6. Income Taxes

In 1000 CHF	2017	2016
Current tax expense	2 944	5 058
Deferred tax expense	13 631	1 769
Total income taxes	**16 575**	**6 827**

In %	2017	2016
Reconciliation of the Group's effective tax rate		
Group's average expected tax rate	17.9	21.3
Effect of changes in tax rates /Reassessment of tax loss carry-forwards	14.8	–5.5
Non-recognition of tax loss carry-forwards	7.2	11.8
Effect of unrecognized tax loss carry-forwards used against taxable profits	–5.7	–5.2
Other items	–4.8	–2.7
Group's effective income tax rate	**29.4**	**19.7**

In 2017 the effective tax rate based on earnings before taxes is 29.4% (2016: 19.7%).

In 1000 CHF	December 31, 2016	Change	December 31, 2017
Deferred tax assets	**42 803**	**–10 557**	**32 246**
Deferred tax liabilities	**4 638**	**2 310**	**6 948**

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 28.0%, 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, 2017, deferred tax assets were capitalized on CHF 47.9 million tax loss carry-forwards (2016: CHF 69.2 million).

In addition the Group has available CHF 134.3 million unrecognized tax loss carry-forwards and tax credits (2016: CHF 139.4 million).

In 1000 CHF	2017	2016
Expiry of unrecognized tax losses and tax credits		
Within one year	1 657	23 304
Between one and five years	50 490	40 430
More than five years	82 136	75 656
Total unrecognized tax losses and tax credits	**134 283**	**139 390**

7. Inventories

In 1000 CHF	2017	2016
Raw materials	68 602	73 182
Work in process	17 087	16 864
Finished goods and trading goods	162 605	153 623
Total inventories	**248 294**	**243 669**

The valuation allowances for inventory amount to CHF 16.3 million (2016: CHF 19.4 million) and are included in the figures above.

The position work in process includes CHF 8.9 million from PoCM orders, see also Note 26.

8. Trade Receivables

In 1000 CHF	2017	2016
Trade receivables	189 349	155 775
Allowances for doubtful accounts	–189	–4
Total trade receivables	**189 160**	**155 771**

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

9. Derivative Financial Instruments

The guidelines on financial risk management are described in the accounting principles. Within the framework of these guidelines the Siegfried Group uses derivative financial instruments to hedge foreign exchange and interest rate risks. The contract value provides information about the volume of outstanding transactions. At the reporting date foreign exchange and interest hedging contracts were open. Foreign currency forward contracts were used to hedge net payment flows in the financial year 2017 aggregating USD 42.7 million and EUR 30.0 million (2016: USD 36.0 million and EUR 51.7 million). In order to hedge interest risks on loans drawn down interest swaps were concluded with several banks in the amount of EUR 18.0 million (2016: EUR 27.0 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.

	Contract value		Positive fair value		Negative fair value	
In 1000 CHF	2017	2016	2017	2016	2017	2016
Foreign currency swaps	77 076	92 060	296	471	–	162
Interest rate swaps	21 089	29 025	–	–	97	223
Total	**98 165**	**121 085**	**296**	**471**	**97**	**385**

10. Treasury Shares

Treasury shares are deducted at transaction value directly from equity. At December 31, 2017, the book value of the treasury shares was CHF 21.6 million (2016: CHF 51.8 million). The reduction in the inventory of treasury shares results from the exercise by the RAG Stiftung Beteiligungsgesellschaft mbH of its conversion right (hybrid convertible loan), which was serviced by treasury shares of Siegfried Holding AG.

Treasury shares	December 31, 2016	Change	December 31, 2017
Total treasury shares	**286 671**	**–218 080**	**68 591**
Total Siegfried shares	**4 166 591**	**44 324**	**4 210 915**
Total outstanding shares	**3 879 920**	**262 404**	**4 142 324**

In 2017, 184 337 shares (2016: 196 319 shares) were acquired with an average price of CHF 236.6 (2016: CHF 175.9) and 402 417 shares (2016: 129 588 shares) sold resp. converted for an average price of CHF 299.1 (2016: CHF 195.2).

11. Share Capital – Hybrid Capital – Conditional Capital

The share capital of Siegfried Holding AG increased from CHF 8.33 million to CHF 8.42 million as a result of the issue of shares under employee benefit programs. It is divided into 4 210 915 registered shares each with a nominal value of CHF 2 (2016: 4 166 591 registered shares).

In the third quarter of 2015 the German RAG-Stiftung Beteiligungsgesellschaft mbH took an interest by means of a privately placed hybrid convertible loan issued by Siegfried Holding AG amounting to CHF 60 million. RAG Stiftung Beteiligungsgesellschaft mbH exercised its conversion right effective October 2, 2017. The conversion did not require an increase in the share capital of Siegfried Holding AG, because it was serviced by the company's treasury 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

Siegfried Holding AG has at its disposal conditional capital of CHF 298 170 for the creation of 149 085 shares to serve the Long Term Incentive Plan (LTIP) and other employee benefit plans (2016: CHF 386 818 for 193 409 shares). In 2017, 44 324 shares were allocated for participation programs from conditional capital (2016: 16 591 shares).

Conditional capital (number of shares)	December 31, 2016	Change	December 31, 2017
Long Term Incentive Plan (LTIP) and other employee benefit plans	193 409	–44 324	149 085
Total	**193 409**	**–44 324**	**149 085**

12. 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, 2017, the equivalent of CHF 100 million, including USD, was drawn down (2016: CHF 91.1 million, including USD).

13. Provisions

In 1000 CHF	Environmental provisions	Other provisions	Total
As of January 1, 2016	36 569	1 237	37 806
Costs incurred	–1 011	–35	–1 046
Additions, interest	419	592	1 011
Releases of unused provisions	–2 952	–	–2 952
Currency translation	–38	–8	–46
As of December 31, 2016	**32 987**	**1 787**	**34 774**
Thereof current	8 483	1 186	9 669
Thereof non-current	24 504	601	25 105
As of January 1, 2017	32 987	1 787	34 774
Costs incurred	–2 475	–8	–2 483
Additions, interest	502	–	502
Releases of unused provisions	–8 687	–665	–9 352
Currency translation	387	40	427
As of December 31, 2017	**22 714**	**1 154**	**23 868**
Thereof current	6 263	654	6 917
Thereof non-current	16 451	500	16 951

Environmental provisions

The Siegfried Group produces chemicals at various locations. The production process is such that undesirable incidents may also arise, which result in an obligation to remedy pollutant effects on the environment. In connection with planned construction projects, environmental investigations were performed. Possible remediation obligations of CHF 22.7 million have been provided for (2016: CHF 33.0 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 2.5 million (2016: 1.0 million). The start of the planned construction projects is anticipated within the next 15 years. The environmental provision was discounted with 2% (2016: 2%) to the present value of the expected expenditures. The discount amounted to CHF 0.3 million (2016: CHF 0.4 million). Management reviews the provisions annually, based on regulatory changes or changes in planned investments. Accordingly CHF 8.7 million environmental provisions were released (2016: CHF 3.0 million).

Other provisions

The other provisions of CHF 1.2 million (2016: 1.8 million) cover costs for extension and demolition work in the amount of CHF 0.9 million (2016: CHF 1.1 million) and CHF 0.3 million for costs incurred in connection with product warranties (2016: CHF 0.6 million).

14. Other Non-Current Liabilities

Other non-current liabilities of CHF 1.4 million (CHF 1.9 million) include liabilities arising from the BASF share transfer plan and long service awards.

15. Accrued Expenses and Deferred Income

Accrued expenses and deferred income amount to CHF 44.9 million (2016: CHF 37.6 million) and include mainly periodic accruals for personnel costs and social security charges and various expense and income accruals.

16. Other Current Liabilities

Other current liabilities of CHF 19.2 million (2016: CHF 18.0 million) comprise VAT liabilities and current employee liabilities amounting to CHF 18.2 million (2016: CHF 16.2 million) as well as customer prepayments of CHF 1.0 million (2016: CHF 1.8 million).

17. Employee Benefits and Personnel Expenses

In 1000 CHF	**2017**	2016
Wages and salaries	196 528	184 462
Share-based payments	4 891	3 830
Pension expense	10 451	9 058
Expenses for other long-term employee benefits	–457	857
Social and other personnel expenses	44 737	46 578
Total personnel expenses	**256 150**	**244 785**

In the year under review, the average number of employees (in full-time positions) was 2260 (2016: 2315).

Pension liabilities and economic benefits are as follows:

	Excess/ insufficient cover as per FER 26	Economic benefit/ obligation for the company		Change vs. PY or taken to the Income Statement in the FY*	Contributions	Pension expenses			
In 1000 CHF	**31/12/2017**	**31/12/2017**	31/12/2016	**31/12/2017**	**2017**	**2017**	**Personnel**	**Finance**	2016
Pension institutions with surplus (CH)	49 891	–	5	–7	8 144	8 137	8 137	–	8 059
Pension costs (CH)	–	–	–290	–290	16	–274	–278	4	22
Pension plans without own assets (DE)	–120 659	–120 659	–112 213	693	4 995	5 688	1 557	4 131	284
Pension plans without own assets (FR)	–1 541	–1 541	–1 637	–231	46	–185	–268	83	–209
Pension plans without own assets (USA)	–426	–405	–	406	896	1 302	1 302	–	902
Total	**–72 735**	**–122 605**	**–114 135**	**571**	**14 097**	**14 668**	**10 450**	**4 218**	**9 058**

* 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	**31/12/2017**	**31/12/2017**	**31/12/2017**	**31/12/2017**	31/12/2016	**2017**	2016
Pension schemes (CH)	9 222	–	–	9 222	8 882	–340	–119
Total	**9 222**	**–**	**–**	**9 222**	**8 882**	**–340**	**–119**

18. Share-Based Payments

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

The valuation of the PSU is undertaken at the beginning of the relevant vesting period by an external company, which is specialized in the valuation of option and equity plans.

In 2017 for the LTIP plan period 2017–2019 an expense of CHF 2.4 million was recognized, 31 418 PSUs with a fair value of CHF 211.62, for the LTIP plan period 2016–2018 an expense of CHF 0.8 million was recognized, 23 375 PSUs with a fair value of CHF 103.52 and for the LTIP plan period 2015–2017 an expense of CHF 0.4 million, 19 472 PSUs with a fair value of CHF 72.67 per PSU was recognized.

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 2017, total 9783 shares (2016: 12 591 shares) were bought by employees. The total expense for the ESPP amounted in the reporting year to CHF 0.9 million (2016: CHF 0.7 million).

The employee share purchase plan existing under BASF for the employees of the sites Evionnaz, Minden and St. Vulbas was replaced by Siegfried with a share plan limited to ten years (2016–2025). In 2017, 169 shares were allocated out of this share plan, which have been taken into account in the purchase price allocation (2016: 198 shares).

19. Other Operating Income

The Other Operating Income of CHF 6.3 million (2016: CHF 6.2 million) includes revenues from the sale of side products amounting to CHF 2.8 Mio. (2016: CHF 1.8 million), gains on the sale of fixed assets of CHF 0.1 million (2016: CHF 0.1 million) and miscellaneous other income of CHF 3.4 million (2016: CHF 2.0 million). 2016 includes a grant from the Chinese state as start-up finance for the production location Nantong in the amount of CHF 2.3 million.

20. Financial Result

The Financial Result of CHF 8.3 million (2016: CHF 12.0 million) comprises CHF 8.2 million financial expense (2016: CHF 12.6 million) and foreign exchange differences of CHF 0.1 million loss (2016: CHF 0.6 million profit).

The financial expense includes CHF 3.7 million (2016: CHF 7.8 million) for debt interest and fees, CHF 4.2 million effect on the result of change in the actuarial interest rate for discounting or compounding foreign pension liabilities (2016: CHF 4.4 million), and CHF 0.3 million for the compounding of the environmental reserve (2016: CHF 0.4 million).

21. Earnings per Share

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

	2017	2016
Net profit attributable to Siegfried shareholders (in 1000 CHF)	39 732	27 906
Weighted average number of shares outstanding	3 969 247	3 885 570
Non-diluted earnings per share	**10.01**	**7.18**
Net profit attributable to Siegfried shareholders (in 1000 CHF)	39 732	27 906
Weighted average number of shares outstanding	3 969 247	3 885 570
Adjustment for assumed exercise of share-based payments, where dilutive	123 684	79 616
Diluted earnings per share	**9.71**	**7.04**

Earnings per share are calculated excluding interest on hybrid bonds. Including interest expense attributable to hybrid equity holders, basic earnings per share are CHF 7.99 (2016: CHF 5.75) and diluted earnings per share are CHF 7.75 (2016: CHF 5.63).

22. Distribution per Share

For the financial year 2017 the Board of Directors proposes the distribution of CHF 2.40 per share from the capital contribution reserves (2016: CHF 2.00 per share). If this is approved by the Annual General Meeting on April 20, 2018, it will result in a total payment of CHF 9.9 million to the shareholders. The number of shares entitled for distribution may change by the time of the Annual General Meeting on April 20, 2018 (see proposal for the appropriation of retained earnings and the distribution from capital contribution reserves in financial statements of Siegfried Holding AG).

23. Commitments and Contingencies

On December 31, 2017, Siegfried Holding AG gave guarantees to banks in the amount of CHF 5.0 million and EUR 1.75 million (2016: CHF 5.5 million and EUR 1.5 million). In 2015 a demand for claims for alleged unpaid work amounting to RMB 51.7 million on the construction of the site in Nantong was submitted to the Chines Arbitration Court CIETAC by a construction company. Siegfried has submitted a counterclaim on the construction company in the amount of RMB 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.

24. Maturity of Rental and Lease Liabilities

	Operating Leases	Operating Leases
In 1000 CHF	2017	2016
Due under 1 year	7 385	5 231
Due between 1 and 5 years	30 137	25 362
Due after 5 years	47 996	44 554
Total lease liabilities	**85 518**	**75 147**

Of these liabilities CHF 55.3 million (2016: 56.2 million) relate to the new administration buildings in Zofingen, as well as the other production sites as follows: Malta CHF 1.3 million (2016: CHF 1.5 million), Minden CHF 12.1 million (2016: CHF 11.2 million), Hameln CHF 4.3 million (2016: CHF 1.1 million) and Irvine CHF 12.3 million (2016: CHF 3.5 million).

25. Transactions with Related Parties

The companies owned by Siegfried are listed in Note 1 "Scope of consolidation". In 2017 no transactions with related parties took place (2016: CHF 0 million) and at the reporting date there were no receivables from or payables to related parties (2016: CHF 0 million). All transactions between fully consolidated companies have been eliminated in the consolidation process and are not disclosed in this Note.

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

26. Net Sales

Net Sales to Third Parties

In CHF million	2017	2016
Sales of products	747.4	714.7
Services	3.1	3.0
Total net sales	**750.5**	**717.7**

Net Sales by Product Group

In CHF million	2017	2016
Drug Substances	580.7	557.9
Drug Products	169.8	159.8
Total net sales	**750.5**	**717.7**

Net Sales by Foreign Currency

In CHF million	2017	2016
in CHF	244.0	209.1
in EUR	303.4	309.9
in USD	203.1	198.7
Total net sales	**750.5**	**717.7**

The Net Sales of CHF 750.5 million include CHF 8.9 million sales from long-term contracts under the PoCM.

27. Segment Reporting

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

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

28. Events after the Reporting Period

Siegfried Pharma AG, a fully owned subsidiary of Siegfried Holding AG that was incorporated on February 22, 2018, has signed an agreement on March 9, 2018 with Arena Pharmaceuticals GmbH relating to the acquisition of the assets, business contracts and employees of Arena Pharmaceuticals GmbH. Closing of the transaction is expected as per March 31, 2018.

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 2017, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

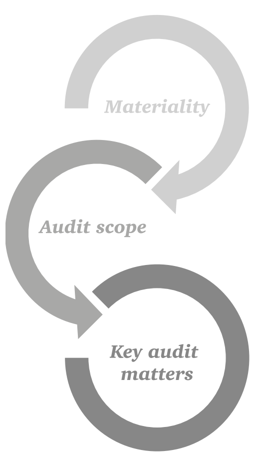
In our opinion, the consolidated financial statements (pages 54 to 63) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

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

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

Our audit approach



Overall Group materiality: CHF 2 800 000

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

Our audit scope addressed 85% of the sales revenue and 85% of the assets of the Group.

Additionally, either specified audit procedures or a review were concluded at a further three group companies in two countries, which addressed a further 15% of the sales revenue and 8% of the assets of the Group.

As key audit matters, the following areas of focus were identified:

- Impairment of deferred tax assets arising from tax loss carryforwards
- Impairment of property, plant and equipment

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.

Materiality

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

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

Overall Group materiality	CHF 2 800 000
How we determined it	5% of profit before income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 280 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 deferred tax assets arising from tax loss carryforwards

Key audit matter	How our audit addressed the key audit matter
We considered the impairment testing of deferred tax assets arising from tax loss carryforwards as a key audit matter for two reasons: Deferred tax assets arising from valuation differences and capitalised tax loss carryforwards represent a significant amount on the balance sheet (CHF 32 million or 3% of total assets). Additionally, the capitalisation of deferred tax assets arising from tax loss carryforwards requires estimates of the tax rates to be applied and assumptions concerning the extent of future taxable profits within the period in which the tax loss carryforwards would need to be utilised by offset against available profits. Please refer to page 59 (Estimates, Assumptions and Accounting Judgments) and page 60 (Notes to the consolidated financial statements, Note 6, Income Taxes) in the 2017 Annual Report.	We performed the following main audit procedures: — We conducted a critical examination of Management's assumptions and assessments, especially the expected revenue and cost growth rates, relating to the impairment testing of deferred tax assets arising from tax loss carryforwards. Using economic and industry-specific forecasts, we performed plausibility checks of the appropriateness of the estimates of future revenues. This included analysing whether the testing was based on the current forecasts approved by the Board of Directors. — We compared the business results of the year under review with the forecasts made in the prior year for tax planning purposes in order to identify any assumptions regarding profits that in retrospect appeared too optimistic. — We examined the calculations of expected taxable profits in terms of consistency and proper methodical approach and we re-performed calculations. — For each company, we compared the tax rates applied by Management with the current or expected tax rates. Our audit supports the amounts recognised by Management with regard to deferred tax assets arising from tax loss carryforwards.

Key audit matter	How our audit addressed the key audit matter
Property, plant and equipment is a significant item on the balance sheet (CHF 500 million or about 47% of total assets) of the Siegfried Group; the recoverability of these assets depends on expected future profits. 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. Please refer to page 59 (Estimates, Assumptions and Accounting Judgments and Notes to the consolidated financial statements, Note 2, Property, plant and equipment) in the 2017 Annual Report.	We performed the following main audit procedures: — We checked that the composition of the cashgenerating unit complied with the definition according to Swiss GAAP FER. — 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. — We examined the calculations of recoverable amounts in terms of consistency and correct methodical approach and we re-performed 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. — We performed plausibility checks of the appropriateness of the applied discount rate by assessing the cost of capital of the company and comparing it with analogous companies. Our audit supports the amounts recognised by Management with regard to fixed assets.

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. http://www.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, 9 March 2018

Financial Statement
of Siegfried Holding AG

Balance Sheet of Siegfried Holding AG

In CHF (as of December 31)	**2017**	2016
Assets		
Current assets		
Cash and cash equivalents	3 260 128	314 161
Securities	10 006	10 006
Other current receivables due from third parties	34 614	4 813
Other current receivables due from Group companies	5 764 000	5 808 114
Accrued income and prepaid expenses	4 542 226	7 394 474
Total current assets	**13 610 974**	**13 531 568**
Non-current assets		
Loans to Group companies	539 182 241	602 805 330
Investments	202 490 189	202 489 677
Property, plant and equipment	–	434
Intangible assets	–	927
Total non-current assets	**741 672 430**	**805 296 368**
Total assets	**755 283 404**	**818 827 936**

In CHF	**2017**	2016
Liabilities and shareholders' equity		
Current liabilities		
Short-term liabilities due from Group companies	–	30 083 862
Other short-term liabilities due from third parties	165 215	149 697
Accrued expenses and deferred income	5 266 953	5 425 019
Total short-term liabilities	**5 432 168**	**35 658 578**
Non-current liabilities		
Long-term interest-bearing liabilities third parties	–	35 000 000
Hybrid capital	260 000 000	320 000 000
Total long-term liabilities	**260 000 000**	**355 000 000**
Total liabilities	**265 432 168**	**390 658 578**
Shareholders' equity		
Share capital	8 421 830	8 333 182
Legal reserves	2 800 000	2 800 000
Reserves from capital contribution	103 290 961	100 242 970
Voluntary reserves	368 626 753	353 279 005
Treasury shares	–21 601 253	–51 779 430
Statutory retained earnings	28 312 945	15 293 631
Total shareholders' equity	**489 851 236**	**428 169 358**
Total liabilities and shareholders' equity	**755 283 404**	**818 827 936**

Income Statement of Siegfried Holding AG

In CHF	**2017**	2016
Income		
Financial income	28 453 862	9 929 307
Service income	14 778 338	13 269 746
Total income	**43 232 200**	**23 199 053**
Expenses		
Personnel expense	173 901	204 319
Administrative expense	2 925 236	3 099 120
Financial expense	11 747 234	4 565 249
Taxes	71 524	35 944
Depreciation on non-current assets	1 360	790
Total expenses	**14 919 255**	**7 905 422**
Net profit	**28 312 945**	**15 293 631**

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 not on average above ten.

Guarantees and Securities

As security for the liabilities in connection with the syndicated loan there is a guarantee in the amount of CHF 104.5 million (2016: CHF 220.0 million). At December 31, 2017, guarantees had been given by Siegfried Holding AG in favor of banks in the amount of CHF 5.0 million and EUR 1.75 million (2016: CHF 5.5 million and EUR 1.5 million).

Balance Sheet

Investments

As of December 31, 2017, Siegfried Holding AG held the following direct or significant indirect investments:

Group companies	in LC	Participation	Share capital 2017	Share capital 2016
Operating				
Siegfried AG, Zofingen (Switzerland)	CHF	100.00%	20 000 000	20 000 000
Siegfried USA, LLC, Pennsville (USA)	USD	100.00%	500 000	500 000
Siegfried International AG, Zofingen (Switzerland)*	CHF	100.00%	–	2 000 000
Siegfried Malta Ltd, Valletta (Malta)	EUR	100.00%	100 000	100 000
Alliance Medical Products Inc., Irvine (USA)	USD	100.00%	116 521	116 521
Siegfried (Nantong) Pharmaceuticals Co. Ltd, Nantong (China)	CNY	100.00%	422 296 722	422 296 722
hameln pharmaceuticals gmbh, Hameln (Germany)	EUR	100.00%	750 000	750 000
Siegfried Evionnaz SA, Evionnaz (Switzerland)	CHF	100.00%	1 000 000	1 000 000
Siegried PharmaChemikalien Minden GmbH, Minden (Germany)	EUR	100.00%	50 000	50 000
Siegfried St. Vulbas SAS, Saint Vulbas (France)	EUR	100.00%	15 200 000	15 200 000
Finance and administration				
Siegfried Finance AG, Zofingen (Switzerland)	CHF	100.00%	14 000 000	14 000 000
Siegfried Deutschland Holding GmbH, Lörrach (Germany)	EUR	100.00%	1 790 000	1 790 000
Siegfried USA Holding Inc., Pennsville (USA)	USD	100.00%	3 000	3 000
Siegfried GmbH, Hameln (Germany)	EUR	100.00%	25 000	25 000
Siegfried Hong Kong Ltd, Hong Kong (China)	HKD	100.00%	1 000	1 000
Siegfried Deutschland Real Estate GmbH, Lörrach (Germany)	EUR	100.00%	25 000	25 000
hameln rds gmbh, Hameln (Germany)	EUR	100.00%	30 000	30 000
hameln real estate gmbh + co. kg, Hameln (Germany)	EUR	100.00%	25 000	25 000
Joint venture				
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province (China)	CNY	49.00%	10 542 708	10 542 708

* Siegfried International AG was merged into Siegfried AG as of 30 November 2017.

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 decreased in 2017 by CHF 63.6 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.

Shareholders' Equity

The share capital of Siegfried Holding AG increased from CHF 8.33 million to CHF 8.42 million as a result of the issue of shares under employee benefit programmes. It is divided into 4 210 915 registered shares each with a nominal value of CHF 2 (2016: 4 166 591 registered shares). The legal reserves left unchanged by CHF 2.8 million. The reserve from capital contribution increased net CHF 3.0 million to CHF 103.3 million (2016: CHF 100.3 million), influenced by CHF 7.8 million dividends paid and CHF 10.9 million capital increase of conditional capital. The treasury shares are shown as a negative balance in equity.

Conditional Capital

The conditional capital to serve the Long Term Incentive Plans (LTIP) and other employee share plans amounts after the creation of 44 324 shares to CHF 298 170 for 149 085 shares (2016: CHF 386 818 for 193 409 shares).

Treasury Shares

In the reporting year Siegfried Holding AG has made purchases and sales of Siegfried shares. On balance, the inventory decrease by 218 080 shares (2016: increase by 66 731 shares). The inventory of treasury shares decreased in 2017 mainly as a result of the conversion of the private hybrid-convertible bond. The shares are valued at the average rate.

CHF	Number of shares	Average prices
At January 1, 2016	**219 940**	**169.1**
Purchases 2016	196 319	175.9
Sales 2016	–129 588	195.2
At December 31, 2016	**286 671**	**180.9**
Purchases 2017	184 337	236.6
Sales 2017	–402 417	299.1
At December 31, 2017	**68 591**	**314.9**

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, 2017, the syndicated loan was drawn down in the equivalent of CHF 100 million (2016 CHF 91.1 million, including USD).

In the third quarter of 2015, the RAG-Stiftung Beteiligungsgesellschaft mbH, Germany, participated by means of a privately placed hybrid convertible bond issued by Siegfried Holding AG amounting to CHF 60 million. RAG-Stiftung Beteiligungsgesellschaft mbH exercised the conversion option on October 2, 2017. The conversion did not require an increase of share capital of Siegfried Holding AG as it could be serviced by the company's treasury 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

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, 2017, 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 2017, 2996 shares with a value of CHF 0.8 million were distributed to the members of the Board of Directors. On December 31, 2017, the non-executive members of the Board of Directors and persons closely related to them owned 31 674 (2016: 41 769) registered shares of Siegfried Holding AG. This represents 0.8% (2016: 1.0%) 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 117 398 (2016: 128 054) registered shares, i.e. 2.8% (2016: 3.1%) of the share capital of Siegfried Holding AG.

Major Shareholders

In relation to the number of shares existing at year end of 4 210 915 (2016: 4 166 591), the following shareholders holds according to own statements of their numbers of shares more than 3.0% shares of Siegfried Holding AG.

— The RAG-Stiftung Beteiligungsgesellschaft mbH, Essen, Germany holds 9.8% (2016: 3.2%).
— Tweedy, Browne Company LLC, New York, USA, holds 4.9% (2016: 9.0%).
— The Credit Suisse Funds AG, Zurich, Switzerland, holds 4.7% (2016: 5.1%).
— The Norges Bank (the Central Bank of Norway), Olso, Norwegen holds 3.4% (2016: n/a).
— The Kreissparkasse Biberach, Biberach, Germany (Bayerninvest Kapitalgesellschaft mbH, Munich), holds 3.3% (2016: 3.3%).
— Rainer-Marc Frey, Freienbach, Switzerland, holds <3% (2016: 8.6%).

Events after the Reporting Period

Siegfried Pharma AG, a fully owned subsidiary of Siegfried Holding AG that was incorporated on February 22, 2018, has signed an agreement on March 9, 2018 with Arena Pharmaceuticals GmbH relating to the acquisition of the assets, business contracts and employees of Arena Pharmaceuticals GmbH. Closing of the transaction is expected as per March 31, 2018.

December 31, 2017

Board of Directors	Function	Number of shares	of which blocked
Dr. Andreas Casutt	Chairman	18 000	2 856
Martin Schmid	Vice-Chairman	928	928
Colin Bond	Member	2 428	1 428
Wolfram Carius	Member	1 928	1 428
Reto Garzetti	Member	7 462	1 428
Ulla Schmidt	Member	928	928
Executive Management			
Dr. Rudolf Hanko	CEO	75 000	–
Dr. Reto Suter	CFO	500	–
Dr. René Imwinkelried	Head Technical Operations and R&D	9 478	–
Arnoud Middel	Head Human Resources Global	3 000	–
Marianne Späne	Head Business Development & Sales	18 576	–
Dr. Wolfgang Wienand	Chief Scientific and Strategy Officer	10 844	–

December 31, 2016

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

Proposal of the Board of Directors to the Annual General Meeting of April 20, 2018, regarding Appropriation of the Retained Earnings and the Distribution from Reserves from Capital Contribution

In CHF	2017
Balance brought forward	–
Profit for the year	28 312 945
Statutory retained earnings	28 312 945
Appropriation of retained earnings to free reserves	–28 312 945
Balance to be carried forward	**–**
Reserves from capital contribution as of December 31, 2016	100 242 970
Distribution in 2017	–7 831 386
Capital increase	10 879 377
Total reserves from capital contribution as of December 31, 2017	103 290 961
Distribution of CHF 2.40 per registered share on 4 142 530 distribution-entitled shares	–9 942 072
Reserves from capital contribution carried forward	**93 348 889**

The total amount of distribution mentioned in the proposal of the Board of Directors has been calculated on the basis of number of shares entitled for distribution on the day of the approval of the Board of Directors meeting. The number of shares entitled for distribution will change up to the Annual General Meeting on April 20, 2018.

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 2017, and income statement and notes for the year then ended, including a summary of significant accounting policies.

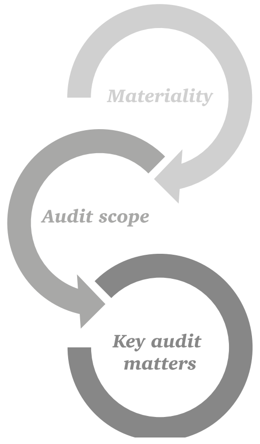
In our opinion, the financial statements (pages 66 to 69) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

Basis for opinion

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

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

Our audit approach



Overall materiality: CHF 550 000

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

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

— Valuation of investments in Group companies

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.

Materiality
The scope of our audit was influenced by our application of materiality. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in Group companies

Key audit matter	How our audit addressed the key audit matter
Siegfried Holding AG holds investments in the companies listed in the notes to the financial statements. 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. Please refer to page 67 of the notes to the financial statements for information on the accounting policies and the list of investments in Group companies.	We performed the following main audit procedures: — 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. — We examined the calculations of company values in terms of consistency and correct methodical approach, and we re-performed 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. — We performed plausibility checks of the appropriateness of the applied discount rate by assessing the cost of capital of the company and comparing it with analogous companies. Our audit supports the amounts recognised by Management with regard to investments in Group companies.

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. http://www.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 retained earnings and of the statutory capital reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Illi Audit expert Auditor in charge	Andreas Kägi Audit expert

Basel, 9 March 2018

Information for Investors

Key Figures Overview 2013–2017

Consolidated Figures

		2017	2016	2015	2014	2013
Net sales	CHF million	750.5	717.7	480.6	315.3	374.9
Growth	in %	4.6	49.4	52.4	–15.9	2.0
EBITDA	CHF million	114.0	96.7	77.1	58.8	65.6
Growth	in %	17.8	25.5	31.1	–10.4	44.7
EBITDA margin	in %	15.2	13.5	16.0	18.6	17.5
Operating profit (EBIT)	CHF million	64.6	46.7	43.4	34.0	40.8
Growth	in %	38.2	7.6	27.6	–16.7	127.9
Operating margin	in %	8.6	6.5	9.0	10.8	10.9
Annual result	CHF million	39.7	27.9	39.1	38.6	53.9
Net profit margin	in %	5.3	3.9	8.1	12.2	14.4
Net cash/(net debt)	CHF million	–65.9	–59.5	–177.3	–85.2	50.4
Net Working Capital[1]	CHF million	365.1	342.3	314.2	147.9	130.1
As % of net sales		48.7	47.7	40.5	41.6	34.7
Total assets	CHF million	1 068.6	1 021.4	1 003.9	629.6	537.8
Equity	CHF million	673.4	660.7	492.7	382.8	362.4
Equity ratio	in %	63.0	64.7	49.1	60.8	67.4
Market capitalization[2]	CHF million	1 342.0	826.0	769.0	650.0	572.0
Average capital employed[3]	CHF million	833.9	818.0	562.0	384.7	331.5
Return on capital employed (average) ROCE[4]	in %	13.7	11.8	13.7	15.3	19.8
Cash flow from operating activities	CHF million	84.4	57.1	23.1	24.6	67.5
As % of net sales		11.2	8.0	4.8	7.8	18.0
Free cash flow	CHF million	32.1	–11.1	–66.3	–57.3	23.5
As % of net sales		4.3	–1.5	–13.8	–18.2	6.3
Investments in PPE and intangible assets	CHF million	52.8	68.4	95.0	82.0	51.9
As % of net sales		7.0	9.5	19.8	26.0	13.8
Depreciation and amortization/impairment	CHF million	49.4	50.0	33.7	24.8	24.8
As % of net sales		6.6	7.0	7.0	7.9	6.6
Employees (number of FTEs)[5]	Number	2 260	2 315	2 238	1 374	917
Change vs. previous year	in %	–2.4	3.4	62.9	49.8	10.2
Sales per employee	CHF	332 065	310 034	291 600	316 500	408 877
Change vs. previous year	in %	7.1	6.3	–7.9	–22.6	–7.5

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

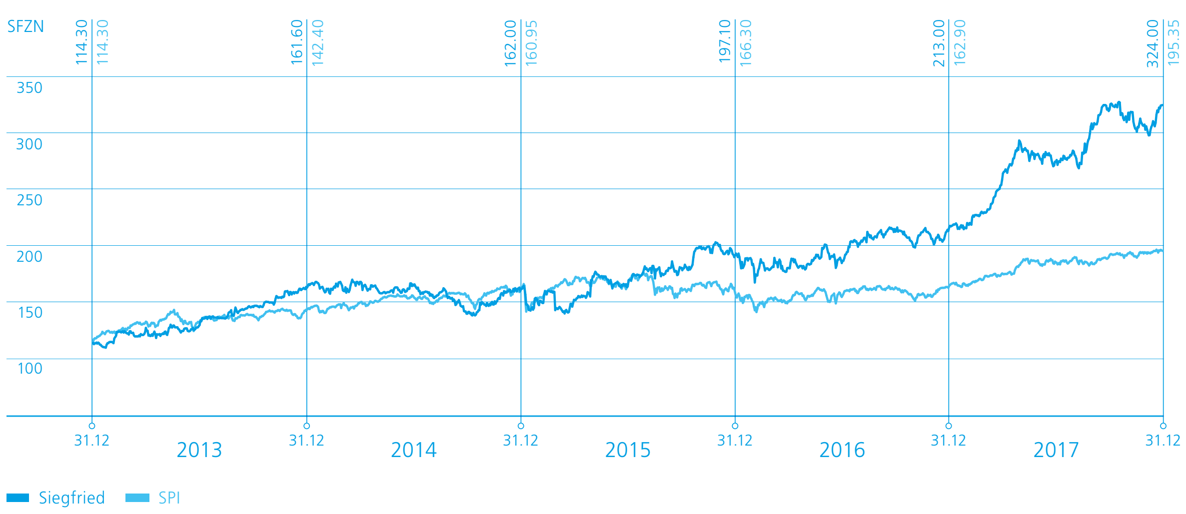
Stock Market Data

			2017	2016	2015	2014	2013
Registered shares nom. CHF 2			4 210 915	4 166 591	4 150 000	4 150 000	3 800 000
Share capital		CHF million	8.4	8.3	8.3	8.3	7.6
Gross dividend per registered share		CHF	2.40	2.00	1.80	1.50	1.50
Total dividend paid		CHF	9 942 072 [1]	7 759 840	6 997 641	5 984 997	5 930 592
Market prices registered share	high	CHF	327.0	216.9	206.2	171.0	163.5
	low	CHF	213.3	165.7	139.5	139.0	109.3
Year-end		CHF	324.0	213.0	195.7	162.0	161.6
Dividend yield per registered share		%	0.7	0.9	0.9	0.9	0.9
Earnings per share – EPS – non-diluted[2]		CHF	10.01	7.18	9.89	9.97	15.07
Earnings per share – EPS – diluted[3]		CHF	9.71	7.04	9.76	9.92	13.73
Consolidated operating cash flow per registered share[2]		CHF	21.3	14.7	5.8	8.6	19.0
Consolidated equity and reserves per registered share[2]		CHF	169.3	170.0	124.6	99.0	101.5
P/E ratio (year-end)[4]			33	30	20	16	12
Market capitalization at year-end[5]		CHF million	1 342	826	769	650	572

[1] Basis shares entitled to a dividend in accordance with the profit appropriation proposal 2017.
[2] Calculated on the basis of year-end share price and diluted EPS.
[3] Calculated on the weighted average number of shares outstanding, deducting treasury shares.
[4] Adjustment for assumed exercise of share-based payments, where dilutive.
[5] Calculated on the number of listed shares, net of treasury shares.

Share Price Development

from January 1, 2013, to December 31, 2017



Shareholder Base

As of December 31, 2017, 3875 shareholders were registered in the share registry of Siegfried Holding AG, representing a shareholding of 65.25% of the total share capital. The distribution of the shares among the shareholders was as follows:

Distribution of shares as of December 31, 2017	Shareholders	No. of shares per category	%
1–10	401	2 359	0.06
11–100	2 179	114 280	2.71
101–1000	1 087	326 552	7.75
1001–10 000	168	475 763	11.30
10 001–100 000	33	499 945	11.87
100 001–1 000 000	7	1 328 747	31.55
	3 875	2 747 646	65.25
Own shares and non-registered shares	n. a.	1 463 269	34.75
Total shares		**4 210 915**	**100.00**

Shareholdings by segment as of December 31, 2017, was as follows:

Holdings by segment as of December 31, 2017	Aktionäre	No. of shares per category	%
Significant shareholders (>3%)	5 [1]	1 097 212	26.06
Individuals	3 582	935 796	22.22
Institutional investors	288	714 638	16.97
Own shares and non-registered shares	n. a.	1 463 269	34.75
Total shares	3 875	**4 210 915**	**100.00**

1 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 forwardlooking statements contained in this Annual Report, among others: (1) pricing and product initiatives of competitors; (2) legislative and regulatory developments and economic conditions; (3) delay or inability in obtaining regulatory approvals or bringing products to market; (4) fluctuations in currency exchange rates and general financial market conditions; (5) uncertainties in the discovery, development or marketing of new products or new uses of existing products, including without limitation negative results of clinical trials or research projects, unexpected side-effects of pipeline or marketed products; (6) increased government pricing pressures; (7) interruptions in production; (8) loss of or inability to obtain adequate protection for intellectual property rights; (9) litigation; (10) loss of key executives or other employees; and (11) adverse publicity and news coverage. The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Siegfried’s earnings or earnings per share for 2018 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Siegfried.

Siegfried Worldwide

Siegfried, headquartered in Zofingen (Switzerland), operates worldwide at nine locations in six countries on three continents. The production facilities are located in Switzerland, the USA, Malta, China, Germany and France.

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2 Pennsville
3 Hal Far
4 Irvine
5 Nantong
6 Hameln
7 Minden
8 Evionnaz
9 St. Vulbas

About this Annual Report

In addition to highlighting Siegfried's business performance and its position concerning assets, finances and earnings, this report throws light on the company's commitment concerning sustainability and its interaction with society and the various stakeholders.

They are to gain a comprehensive and differentiated understanding of how Siegfried incorporates these issues into its corporate strategy and of progress achieved in this regard in the course of the year. The report appears in English and German language.

Scope

We report on the 2017 financial year ending 31 December 2017. The future-oriented topics dealt with in the report represent an exception. Siegfried's Annual Report appears annually and was last published in March 2017, both in a printed version and as PDF on our corporate website. The next report will come out in the spring of 2019.

Governance

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

Principles of accounting

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

External validation

PricewaterhouseCoopers AG (PwC) as auditors reviewed Siegfried Holding AG's Compensation Report for the financial year ending 31 December 2017 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 Disclosure 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.

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.

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

Calendar

In 2018, the company will inform about the course of business as follows:

March 14, 2018
Publication of results for the 2017 business year at a media and analyst conference in Zurich

April 20, 2018
Annual General Meeting of Shareholders
10 a.m., Stadtsaal Zofingen

August 21, 2018
Publication of 2018 half-year financial results

Publisher's Note

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

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The Siegfried Group is a leading supplier in the global CMO market with production facilities in Switzerland, the USA, Malta, China, Germany, and France. Siegfried employs a workforce of about 2300 employees at nine sites in six countries. The Siegfried Holding AG, headquartered in Zofingen (Switzerland), is listed on the Swiss Exchange (SIX:SFZN).

Siegfried share price development
31 December 2012 – 31 December 2017

Share Price 2012	Share Price 2017	Increase
114.3	324.0	183.5
CHF	CHF	%
Siegfried share as of 31 December 2012	Siegfried share as of 31 December 2017	Change Period 2012 – 2017

expect more

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