Siegfried

Financial Report 2017

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.

Financial Report

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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%

Financial Commentary 2017

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).

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 11–38 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 11–38 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 11–38 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 improve-ments	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**

The Group calculates its average expected tax rate as a weighted average of the local tax rates.

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 amount	Interest rate	Call date
Hybrid bond 2015	26/10/2015	100 000	3.500%	26/10/2021
Hybrid bond 2016	26/10/2016	160 000	2.125%	26/10/2022

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.

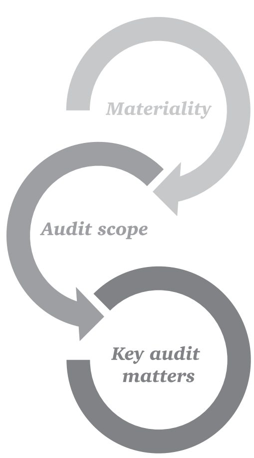
In our opinion, the consolidated financial statements (pages 7 to 38) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER 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 23 (Estimates, Assumptions and Accounting Judgments) and page 28 (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.

Impairment of property, plant and equipment

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 23 (Estimates, Assumptions and Accounting Judgments) and page 25 (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

pwc

Financial Statements 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%	26/10/2021
Hybrid bond 2016	26/10/2016	160 000	2.125%	26/10/2022

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.

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 HR Global	3 000	–
Marianne Späne	Head Business Development & Sales	18 576	–
Dr. Wolfgang Wienand	Head Strategy and M&A, Legal	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 HR Global	4 300	1 032
Marianne Späne	Head Business Development & Sales	19 416	1 416
Dr. Wolfgang Wienand	Head Strategy and M&A, Legal	11 716	1 098

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.

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.

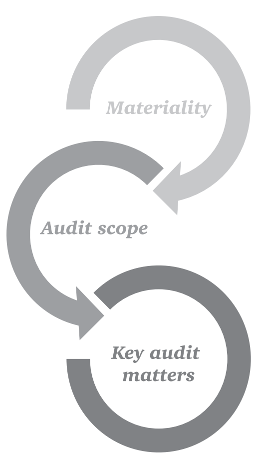
In our opinion, the financial statements (pages 46 to 54) as at 31 December 2017 comply with Swiss law and the articles of incorporation.

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 49 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

pwc

Stock Market Data

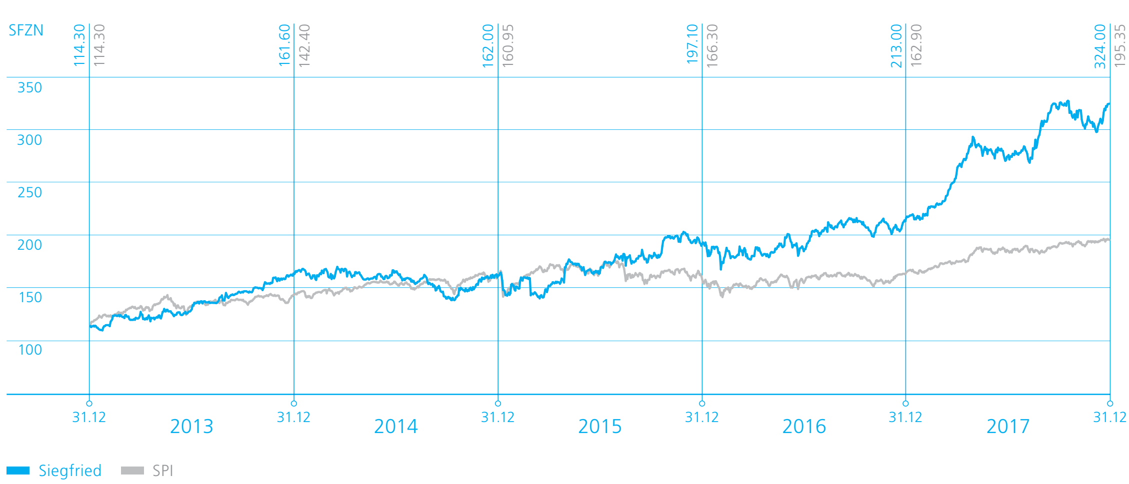
			2017	2016	2015	2014	2013
Registered shares nom. CHF 2			4 210 915	4 166 591	4 150 000	4 150 000	3 800 000
Share capital		CHF million	8.4	8.3	8.3	8.3	7.6
Gross dividend per registered share		CHF	2.40	2.00	1.80	1.50	1.50
Total dividend paid		CHF	9 942 072 [1]	7 759 840	6 997 641	5 984 997	5 930 592
Market 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.

Siegfried shares are traded on the SIX Swiss stock exchange:

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

Share price development from January 1, 2013 to December 31, 2017



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).

We offer customized solutions for services in the development and production of active pharmaceutical ingredients, intermediates, and complex dosage forms (including sterile filling) as well as products from our portfolio.

expect
more

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