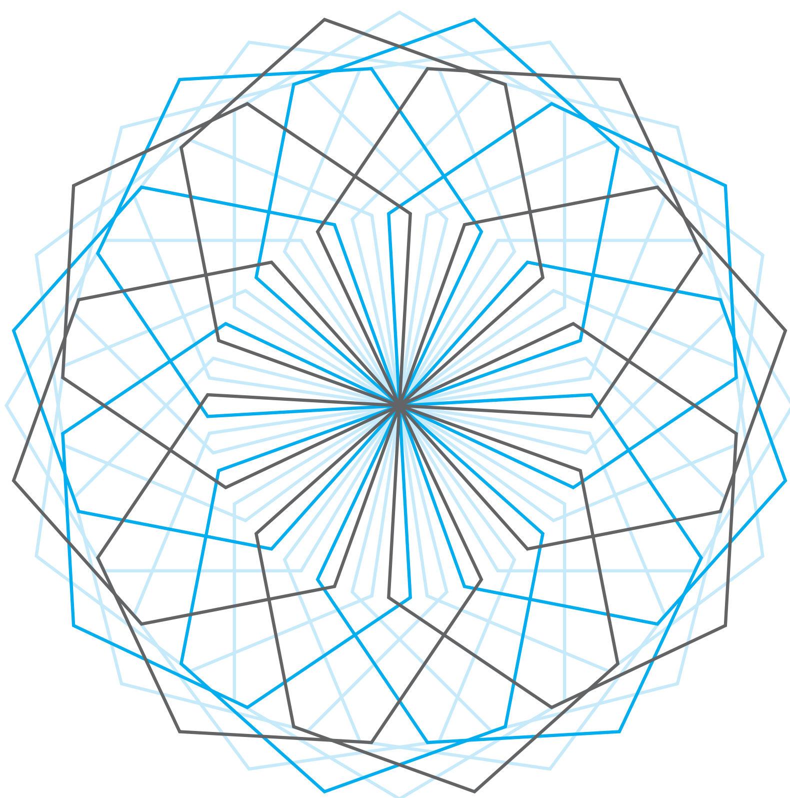
Siegfried

Excelling Operationally



Annual Report
2016

In the past financial year, Siegfried reported sales of 717.7 million Swiss francs, the highest sales result ever in the company’s history.

Operating profit (EBITDA) compared to the previous year grew by 30.1% to 104.2 million francs, while net profit is reported at 27.9 million francs.

Siegfried today employs 2315 employees (FTE) at nine sites in six countries on three continents and is a leading supplier in the global CMO market.

“Excelling Operationally — The New Siegfried”:
The cover illustration symbolizes the blending of histories and cultures of the different sites successfully integrated last year, turning Siegfried into a new and stronger company. Our agile network stands for flexibility, complexity and transformation.

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For the complete version of Siegfried's 2016 Corporate and Sustainability Reports please access our Investor Portal at report.siegfried.ch

Letter to the Shareholders / Progress Report

Dear Shareholders

Following distinctive growth in the preceding years, the Siegfried Group reports a gratifying result for 2016. With sales of 717.7 million Swiss francs, the company has set a new record in its history of more than 140 years. The growth of 49.3% is high because in 2016, for the first time, all of the sites acquired the previous year were fully consolidated and the new site in Nantong (China) made its first contribution.

Being aware that every acquisition is only as good as its implementation, Siegfried's focus in 2016 was on integration and consolidation. The connected one-time expense is shown as integration cost.

Operating profit before tax, interest, depreciation and amortization (EBITDA) before integration costs grew 2016 significantly by 30.1% to 104.2 million francs. The corresponding EBITDA margin for the 2016 year of consolidation suffered slightly, as expected, and is reported at 14.5%. EBITDA including integration costs of 7.5 million francs reached 96.7 million francs. Siegfried achieved net profit of 33.4 million francs before and 27.9 million francs after special effects (2015: 34.1 million francs before and 39.1 million francs after special effects). The decline is attributable to higher tax expenses (approximately 7 million francs) and higher financial expenses in connection with the higher indebtedness. In 2015, Siegfried could profit from tax credits.

Siegfried generated operating cash flow in 2016 (before changes in net current assets) of 95.9 million francs (2015: 65.0 million francs), corresponding to an increase of 47.5%. Operating cash flow including changes in net current assets grew from 23.1 million francs in 2015 to 57.1 million francs.

A personal assessment of CEO Rudolf Hanko concerning the 2016 financial year is also available as a video statement at report.siegfried.ch

Key Figures

Siegfried Global

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

Net Sales

718 mio

Net sales for 2016 were 717.7 million francs.

Sales

49.3%

Sales grew by 49.3% over the previous year.

Employees

2315 employees at 9 sites in 6 countries around the world.

In 2016, headcount grew to 2315 full-time employees, a 3.4% increase over the previous year.

Sites

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

EBITDA *

EBITDA for 2016 grew by 30.1%.

EBITDA *

104 mio

EBITDA for 2016 was 104.2 million Swiss francs.

EBIT *

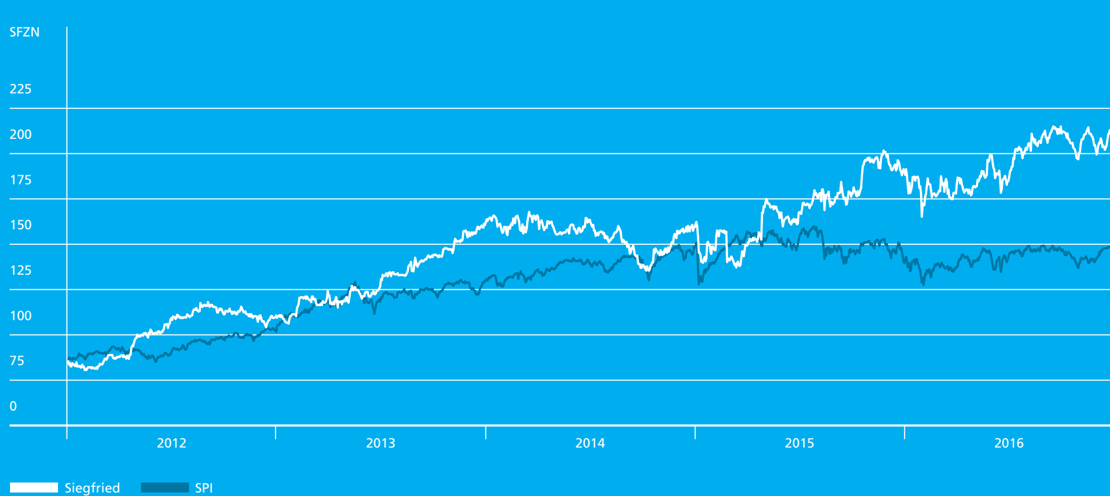
54.2

Operating income (EBIT) was 54.2 million Swiss francs.

EBIT *

EBIT grew by 16.8%.

Share price (January 1, 2012, to December 31, 2016)



* before special effects

Based on this result, the Board of Directors will recommend to the Annual General Meeting the distribution to shareholders from the capital contribution reserves of CHF 2.00.

Implementation of its strategic projects in the 2010–2015 financial years has, in several respects, strengthened the Siegfried Group's position in the market. The company's customer base, for instance, grew significantly, especially in the United States of America, the most important pharmaceutical market. Now, and at least for the coming years, Siegfried enjoys the necessary critical size to flexibly meet customer wishes and needs. This includes the capability to retain a minimum of unused capacity to handle short-term orders and/or projects without putting at risk the company's commercial success. As an integrated supplier – which in our definition represents the integration of chemical and pharmaceutical production under a single roof – we have built up an additional key technology, namely sterile filling, which is receiving positive response from the market. The two sites in Irvine and Hameln have become important pillars of the company, and they contribute a significant share toward the group's result. The combination of the two capabilities, chemistry and pharmaceuticals, is valuable not only in terms of technology. We understand our customers' concerns as Siegfried controls the entire production process of a drug itself. We can, therefore, offer our services concerning Active Pharmaceutical Ingredients (APIs) and finished dosage forms with the necessary precision. The fact that a growing number of API manufacturers are trying to copy this model attests to the success of Siegfried's strategic positioning.

In 2016, APIs (drug substances) stood for about three quarters of Siegfried's sales and finished dosage forms (drug products) for one quarter. Both areas reported organic growth.

In its business with APIs, Siegfried differentiates between exclusive synthesis – representing about two thirds of API sales – and portfolio products, essentially controlled substances (opiates etc.) delivered to various customers. The production sites Zofingen, Evionnaz and St. Vulbas are predominantly, but not exclusively, active in exclusive synthesis, while Minden and Pennsville are important sites for portfolio products, but also handle exclusive orders. The production in Nantong satisfies current demand in both markets. Sales in exclusive synthesis have developed very favorably in 2016. While the sites acquired from BASF undeniably played an important role, even without them Siegfried would have reported gratifying growth in exclusive synthesis. The close cooperation between customer and outsourcing partner required in this field was established also with the newly acquired customers. Correspondingly, Siegfried is today involved in the development of a large number of new customer projects.

Sales of portfolio products developed slightly above expectations in 2016, mainly due to the good performance of the sites acquired in 2015. Especially the Minden site contributed an attractive product range ideally complementing Siegfried's existing program.

In the field of finished dosage forms, sales developed gratifyingly and represented about 25% of 2016 group sales. The growth compared to the previous year is attributable mainly to our business with sterile filling, while sales in solid dosage forms declined slightly. Siegfried expects sterile filling to continue to show a very positive development.

Siegfried's positive 2016 sales results are directly related to our market cultivation strategy. In 2016, the order backlog reached an all-time high.

In the year under review, the Board of Directors and the Executive Committee placed particular emphasis on internal work concerning integration of the new sites. On the one hand, the integration had and still has a technical and administrative component and a significant influence on processes and structures, while on the other hand the cultural component was and still is equally as important. While the Siegfried Group used to be a globally active corporation with a large site in Zofingen and three smaller sites outside Switzerland, it today is a globally operating organization with headquarters in Switzerland. Today, only about one quarter of our workforce is based in Zofingen, while before the acquisitions the share was about two thirds. In 2016, approximately half of the workforce was in Siegfried's employ for a period of less than two years.

In view of this new employment structure, Siegfried started off the integration process with an open design. The aim was, and still is, to develop a new Siegfried culture that takes into consideration the values of a company with 140 years of tradition while providing sufficient space for new developments: new values and a new corporate culture on an international basis. Workshops were therefore held at all sites to provide a platform to deepen the experience of joint values developed in a central Leadership Convention held at the end of 2015. The workshops were implemented under the guidance of local management. This by no means concludes the process of merging the historical roots of a company with a long tradition with the new situation. Solidifying the newly developed corporate culture implies continuous involvement in the process by the entire workforce to make results real and tangible. Moreover, it requires the involvement of top management at all of the sites, also the Board of Directors holds one of its meetings per year at one of Siegfried's sites.

The integration of the former BASF sites into the SAP system was carried out during the summer months – an enormous challenge successfully concluded at the end of August. In addition, Siegfried worked intensively on taking advantage of the synergies defined earlier in the fields of overhead, processes, procurement and maintenance. The company went to great lengths to standardize global processes as fast as possible and to resolve redundancies in central services such as IT, administration, and business development and sales. In terms of procurement, Siegfried's negotiating power has grown owing to the almost double procurement volume. In terms of maintenance, Siegfried is currently negotiating a global cooperation agreement with a third-party supplier. Positive results from these activities will become visible in the current financial year.

The function of multi-site head is a new management level created in order to relieve the head of worldwide technical operations. While two multi-site heads embrace on the one hand the production sites Zofingen, Evionnaz and St. Vulbas, on the other hand Minden, Pennsville and Nantong, the third multi-site head is responsible for the plants producing finished dosage forms in Hameln, Irvine and Hal Far (Malta).

Dr. Andreas Casutt, Chairman of the Board of Directors

Dr. Rudolf Hanko, Chief Executive Officer

Following Siegfried's announcement in the past two years of such spectacular events as acquisitions and the taking into operation of plants, 2016 a phase of less visible, meticulously detailed work was introduced. We were fortunate enough to rely on extremely enthusiastic and loyal employees ready to walk the extra mile required in such times. Members of management, in particular, were pushed to their limits. We would like to express our gratitude to the members of the Executive Committee and of management and to all employees at all sites. While we have already achieved a lot, a large effort in the current year will be required to successfully bring to conclusion what has been begun. To everyone involved we already express our sincere gratitude.

In the year under review, the development and restructuring of the global production network achieved several significant milestones. The Chinese authorities issued Siegfried a final operating license for large-scale production at its Nantong (China) plant, which was inaugurated in 2015. Beforehand, the authorities carried out a comprehensive and successful inspection of the plant. Currently, several products are being developed and produced in Nantong. Thus Siegfried is now in a position to take full advantage of this essential cornerstone of its production network. The fact that an important supplier company operates a production plant in China is being well received by the market. Customer interest remains strong, and our site in Nantong frequently receives corporate delegations for site tours. The new plant in Zofingen, which was constructed in a comparable technical design as the Nantong plant, started commercial production.

In the current year, Siegfried will expand its research and development capacity in order to meet customer requests at all times. In Zofingen, about 40 new laboratory workstations are being set up. Furthermore, construction of the new logistics building with about 5000 pallet positions is to begin shortly.

The Siegfried Group’s financial situation continues to be robust. The ratio of net debt to EBITDA as at the end of 2016 is reported at 0.6 and the equity ratio at 64.7%. In the third quarter, Siegfried Holding AG announced the placement of a further public hybrid bond of 160 million francs in total. The net proceeds were used for capital structure management purposes and repayment of existing bank loans. The bond pays a coupon of 2.125% with no maturity and a first call date after five years. The bond offering was placed under the lead of UBS Investment Bank and Zürcher Kantonalbank.

As a partner of the worldwide pharmaceutical industry, Siegfried places high priority on sustainability in all matters relating to its business. Sustainability, therefore, is one of Siegfried’s five core values. In its reporting, the Siegfried Group orients itself by the Global Reporting Standards GRI, not in order to enhance the company’s reputation, but to draw together the manifold measures and make them available for both internal and external use. A materiality analysis was carried out in a workgroup which defined the nine most significant issues, including product safety, environmental protection, fair working conditions, health and employment safety, corruption and anticompetitive conduct, political representation of interests and the local population at the various sites. The sustainability report, which is also available online, shows that Siegfried enjoys high awareness of these issues and has at its disposal a highly advanced range of instruments.

In the year under review, Ulla Schmidt, Vice-President of the German Bundestag, and Dr. Martin Schmid, member of the Swiss Council of State for the Canton of Grisons, took office as members of the Board of Directors. The Board in its new formation worked intensively on the Siegfried Group’s new orientation. In addition to four regular meetings, one of them a two-day closed meeting, the Board members worked in three committees. We wish to thank all members of the Board for their strong commitment to the company. The wealth of experience in various areas that exists in the Board is of great value to the Executive Committee and helps guide the company into a secure future.

Dr. Walter Kittl, who as a member of the Executive Committee managed the Global Technical Operations division for five years, decided to step down at the end of October 2016 following the completion of several key projects. He continues to support Siegfried on a consultant basis. He was succeeded by Dr. René Imwinkelried, formerly Head Research & Development. The new management of Research & Development will be appointed in the current year. We thank Dr. Walter Kittl for the many years of successful commitment to the company and the extraordinary contribution made to the implementation of the Transform strategy. With effect from the next Annual General Meeting, Dr. Thomas Villiger declared his withdrawal from the Board of Directors. Seeing that two Board members were elected at the 2016 Annual General Meeting, the Board of Directors decided not to recommend a replacement to the 2017 Annual Meeting.

Siegfried closely follows developments in the market for Contract Manufacturing Organizations (CMO). As shown by various mergers and acquisitions, the consolidation process in the industry is by no means completed. For the Siegfried Group, therefore, the order of the day is to remain active in this process in order to secure its leading position in the CMO market. This also means continuing to reduce indebtedness in order to gain impact. In addition to the welcome additional size and connected flexibility, Siegfried is mainly working toward deepening and/or expanding its technical competence. In an industrial environment, M&A activities must remain within a reasonable financial range if they are to provide the expected contribution within an acceptable period of time. As in the past, the Siegfried Group will not embark on any adventures in the future.

The Siegfried Group expects to achieve a robust result for the current year. The company anticipates high single-digit sales growth for 2017 subject to developments in various foreign currencies. In addition, the earnings situation will continue to improve owing to the identified synergies. This will represent the basis on which to increase the distribution to shareholders, also in the years to come.

We would like to take this opportunity to thank all shareholders for their support and trust in our company. The gratifying performance of Siegfried's share price in the year under review validates your trust. We assume that the steady and stable development of the company will trigger further positive impulses.

Dr. Andreas Casutt
Chairman

Dr. Rudolf Hanko
Chief Executive Officer

Sales
Million Francs

The Year 2016 in Review

700

600

500

400

300

200

100

481 mio

Record Result 2015

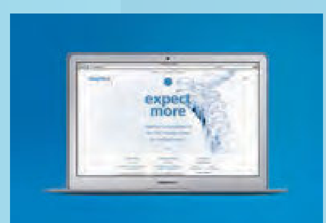
The Siegfried Group reported sales of 480.6 million francs – the highest in its corporate history (+52.4%).

Changes on Board of Directors

In April, on the occasion of the Annual General Meeting, two new members were appointed to the Board of Directors: Ulla Schmidt, Member and Vice-President of the German Bundestag, and Dr. Martin Schmid, Councillor of State. The Board now consists of seven members.

Operating Approval Nantong

The new plant in Nantong, China, was granted final operating approval for commercial production.



New Corporate Website

Siegfried's new corporate website was introduced mid-April. Thanks to its new design and technology, it meets today's navigation habits and automatically adjusts to all screen sizes.

353 mio

Half-Year Result

Siegfried reports a jump in sales: For the first half of 2016, Siegfried reported sales of 353.6 million francs, representing growth of 76.2%.

Jan/Feb March/April May/June

Share price CHF

718 mio

Sales
As at December 31, 2016

SAP Cutover and Go-Live Minden, Evionnaz & St. Vulbas

The IT cutover was implemented during the summer months at the three sites in Minden, Evionnaz and St. Vulbas. It created the basis for working on Siegfried's new IT infrastructure and IT systems.

Start of Production in Building 425 in Zofingen

Start of production in the new Building 425 in Zofingen: Owing to the good order situation, Siegfried postponed closing down older, no longer efficient plants. A project was launched in the year under review serving capacity expansion for research and development.

Roll-Out of Legal Compliance Program

Siegfried Group's legal compliance program is based on the recently published manual concerning legal regulations and on the Code of Conduct in business transactions revised in 2016. The Code of Conduct defines the expected ethical and lawful business conduct within the Siegfried Group. It was rolled out worldwide in October.

Roll-Out "Leadership and Values"

In 2015, ExeCom started the process of developing shared values and management principles as the basis for successful cooperation and continued its development with management staff at all nine sites. Roll out at all sites implemented in summer 2016.

Hybrid Bond

Siegfried Holding AG issued a subordinated public hybrid bond amounting to a total of 160 million francs. Net proceeds were used for repayment of existing bank loans and for capital structure management.

July/Aug Sept/Oct Nov/Dec

Board of Directors and Executive Committee

From left to right:

Prof. Dr. Wolfram Carius
Member of the Board of Directors

Reto A. Garzetti
Member of the Board of Directors

Dr. Thomas Villiger
Vice Chairman of the Board of Directors

Ulla Schmidt
Member of the Board of Directors

Dr. Andreas Casutt
Chairman of the Board of Directors

Dr. Martin Schmid
Member of the Board of Directors

Colin Bond
Member of the Board of Directors

Please find the detailed profiles of the Board of Directors in the Corporate Governance chapter, page 27 and 28.

From left to right:

Arnoud Middel
Head Human Resources

Dr. Wolfgang Wienand
Head Strategy and M&A

Marianne Späne
Head Business Development, Marketing & Sales

Michael Hüsler
Chief Financial Officer

Dr. Rudolf Hanko
Chief Executive Officer

Dr. René Imwinkelried
Head Research & Development, Head Global Operations

Please find the detailed profiles of the Executive Committee in the Corporate Governance chapter, page 32 and 33.

Transparency creates trust. That is why the Siegfried Group's corporate governance reflects the demands made on modern corporate management. It is based on the Swiss Code of Obligations, the directive on corporate governance of the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance.

Corporate Governance

Find out more about Corporate Governance at Siegfried at:
www.siegfried.ch/investor-relations-media/investor-relations/corporate-governance

Corporate Governance

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

General Framework

Corporate governance of the Siegfried Group is focused on ensuring a sound and long-term relationship with all stakeholders and providing the necessary transparency. It is based on the Swiss Code of Obligations (article 663b^{bis} and article 663c OR), the directive on corporate governance of the SIX Swiss Exchange and the "Swiss Code of Best Practice for Corporate Governance." Remuneration for the Board of Directors and Executive Management is reported in the separate Remuneration Report on page 42 et seq.

1. Corporate Structure and Shareholders

1.1 Management Structure of the Siegfried Group

Dr. Andreas Casutt
Chairman of the Board of Directors

Dr. Rudolf Hanko
Chief Executive Officer

Dr. Wolfgang Wienand
Head Strategy and M&A

Arnoud M. Middel
Head Human Resources

Michael Hüsler
Chief Financial Officer

Dr. René Imwinkelried
Head Technical Operations/
Head Research & Development

Marianne Späne
Head Business Development,
Marketing & Sales

1.2 Corporate Structure

Siegfried Holding AG, with its registered office located in Zofingen (Switzerland), is the parent company of the Siegfried Group, which, as at December 31, 2016, comprises 20 consolidated operating and holding companies worldwide. Siegfried Holding AG is listed on the SIX Swiss Exchange (valor symbol: SFZN, ISIN: CH0014284498). As at December 31, 2016, the market capitalization of Siegfried Holding AG amounted to approximately CHF 826 million.

The Siegfried Group includes the following major group companies:

	Currency	Capital in LC	Holding
1. Switzerland			
Siegfried Holding AG, Zofingen	CHF	8 333 182	100.00%
Siegfried AG, Zofingen	CHF	20 000 000	100.00%
Siegfried International AG, Zofingen	CHF	2 000 000	100.00%
Siegfried Finance AG, Zofingen	CHF	14 000 000	100.00%
Siegfried Evionnaz SA, Evionnaz	CHF	1 000 000	100.00%
2. Europe			
hameln pharmaceuticals gmbh, Hameln	EUR	750 000	100.00%
hameln rds gmbh, Hameln	EUR	30 000	100.00%
hameln real estate gmbh & co. kg, Hameln	EUR	25 000	100.00%
Siegfried PharmaChemikalien Minden GmbH, Minden	EUR	50 000	100.00%
Siegfried St. Vulbas SAS, St. Vulbas	EUR	15 200 000	100.00%
Siegfried Malta Ltd, Valletta	EUR	100 000	100.00%
3. USA			
Siegfried USA, LLC, Pennsville	USD	500 000	100.00%
Alliance Medical Products, Inc., Irvine	USD	116 521	100.00%
4. Asia			
Siegfried (Nantong) Pharmaceuticals Co., Ltd., Nantong	CNY	346 925 622	100.00%
Alpine Dragon Pharmaceuticals Ltd, Huangyang, Gansu Province	CNY	10 542 708	49.00%

1.3 Shareholders

The shareholders listed in the following table have reported holdings of 3% or more of the voting rights of Siegfried Holding AG as of December 31, 2016, based on the shareholder disclosure notifications pursuant to Article 120 of the Swiss Financial Market Infrastructure Act (FMIA). The detailed disclosure notifications pursuant to Article 120 FMIA can be found under: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=SIEGFRIED.

	Shares as of Dec. 31, 2016	Holding % as of Dec. 31, 2016[1]	Shares as of Dec. 31, 2015	Holding % as of Dec. 31, 2015[2]
Shareholding >3%				
Tweedy Browne Company LLC, New York, USA	374 767[3]	8.99	374 767	9.03
Rainer Marc Frey, Freienbach	359 431[4]	8.63	359 431	8.67
Credit Suisse Funds AG, Zurich	212 100[5]	5.09		
EOP Participants (group/blocking period until March 2016)			199 332[6]	4.80
Kreissparkasse Biberach, Biberach, Germany (BayernInvest Kapitalgesellschaft mbH, Munich, Germany)	137 178[7]	3.29	137 178	3.31
RAG-Stiftung, Essen, Germany	135 000[8]	3.24		
Siegfried Holding AG (own shares)	286 671[10]	6.89	210 528[9]	5.07
Total	**1 505 147**	**36.12**	**1 281 236**	**30.88**

[1] Based on 4 166 591 issued shares as of December 31, 2016.
[2] Based on 4 150 000 issued shares as of December 31, 2015.
[3] According to the disclosure notification of May 27, 2011.
[4] According to the disclosure notification of September 3, 2013.
[5] According to the disclosure notification of July 26, 2016.
[6] According to the disclosure notification of March 26, 2014. The "EOP Participants" were the participants in Siegfried Group's Equity Ownership Plans of 2010 and of 2012 (collectively "EOP") that were allocated Siegfried shares on March 14, 2014, subject to a two-year blocking period in accordance with the provisions of the EOP. The disclosed shareholding included shares held by members of the Board or the Executive Management. The group was dissolved as per the expiry of the blocking period.
[7] According to the disclosure notification of April 28, 2012.
[8] According to the disclosure notification of April 20, 2016. In addition, according to the same disclosure notification, the RAG-Stiftung holds 274 285 conversion rights for Siegfried shares, which, when converted, corresponds to an additional shareholding of 6.58% (see Section 2.5 below).
[9] According to the disclosure notification of September 16, 2015.
[10] See page 126 Financial Report

As of December 31, 2016, 3 064 shareholders were registered in the share registry of Siegfried Holding AG, representing a shareholding of 69.23% of the total share capital. The distribution of the shares among the shareholders was as follows:

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

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

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

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

1.4 Crossholdings

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

2. Capital Structure

2.1 Share Capital

The share capital of Siegfried Holding AG recorded in the commercial register as of December 31, 2016, amounts to CHF 8 333 182, divided into 4 166 591 fully paid-up registered shares with a par value of CHF 2 per share. Each registered share authorizes the holder to exercise one vote at the General Meeting of Shareholders, and grants the right to receive dividends (subject to the dividend resolution of the General Meeting of Shareholders). There are no preferred rights attached to any Siegfried shares. The Articles of Incorporation of Siegfried Holding AG provide for conditional share capital and do not provide for authorized share capital.

2.2 Conditional Share Capital

The General Meeting of Shareholders of Siegfried Holding AG held on March 26, 2014, approved an amendment of the Articles of Incorporation to create a conditional share capital of CHF 420 000 in total, divided into 210 000 registered shares with a par value of CHF 2 each. The conditional share capital is reserved for the issuance of Siegfried shares to members of the Board of Directors and / or the employees of Siegfried Holding AG and / or its group companies.

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

As per December 31, 2016, a total of 16 591 shares had been issued out of the conditional share capital approved on March 26, 2014, in accordance with the purpose set forth in the Articles of Incorporation. As a result, the conditional share capital pursuant to Article 3bis of the Articles of Incorporation amounted to CHF 386 818, divided into 193 409 registered shares with a par value of CHF 2 each.

2.3 Changes in Share Capital

In the business year 2016, the share capital of Siegfried Holding AG increased by CHF 33 182 as a result of the issuance of 16 591 shares to the members of the Board of Directors and/or employees of Siegfried Holding AG and/or its group companies out of the conditional share capital in accordance with Article 3bis of the Articles of Incorporation.

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

In 2014, the issued share capital of Siegfried Holding AG increased from CHF 7 600 000 to CHF 8 300 000 by way of issuance of 350 000 registered shares to members of the Board of Directors and employees of Siegfried Holding AG and its group companies in accordance with Art. 3bis paragraph 4 of the former Articles of Incorporation of May 24, 2011. Thereby, the conditional share capital reserved for such purposes was used up. By resolution of the General Shareholder's Meeting of March 26, 2014, the new conditional share capital as per section 2.2 above was created. Concurrently, it was resolved to delete the remaining conditional share capital of CHF 100 000 which was originally created for use in connection with the issuance of bonds/notes or other financial instruments by Siegfried Holding AG or any of its group companies. As a result, as per December 31, 2014, Siegfried Holding AG disposed of a conditional share capital in the total amount of CHF 420 000, divided in 210 000 registered shares with a par value of CHF 2 each.

2.4 Limitations on Transferability and Registration of Nominees

Only persons recorded in the share registry as shareholder with voting right are entitled to exercise voting and related rights. Registration in the share registry is subject to the following statutory restrictions:

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

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

2.5 Convertible Bonds and Warrants

During the business year 2015, Siegfried Holding AG issued a privately placed hybrid convertible bond in the amount of CHF 60 million to the German RAG-Stiftung. According to the disclosure notification to Disclosure Office of the SIX Swiss Exchange of April 20, 2016, the RAG-Stiftung has the right to convert the nominal amount of the hybrid convertible bond into shares of Siegfried Holding AG for an initial conversion price of CHF 218.75 per share into 274 285 shares in total. Based on the 4 166 591 currently issued shares of Siegfried Holding AG, this would represent a stake of 6.58%. The conversion price and, hence, the number of conversion rights, are subject to changes in accordance with the terms of the hybrid convertible bond, in particular due to the payment of dividends by Siegfried Holding AG. The exercise period lasts until September 28, 2020. The convertible bond qualifies as hybrid capital.

Siegfried Holding AG has not issued any warrants.

3. Board of Directors

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

3.1 Members of the Board of Directors

Name	Birth year	Position	Member since	End of term
Andreas Casutt	1963	Chairman, non-executive	2010	2017
Thomas Villiger	1951	Vice Chairman, non-executive	2011	2017
Colin Bond	1961	Non-executive member	2013	2017
Wolfram Carius	1961	Non-executive member	2014	2017
Reto Garzetti	1960	Non-executive member	2011	2017
Martin Schmid	1969	Non-executive member	2016	2017
Ulla Schmidt	1949	Non-executive member	2016	2017

Honorary Chairman				
Bernard A. Siegfried	1934			

3.2 Profiles

Dr. Andreas Casutt
Chairman

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

Dr. Thomas Villiger
Vice-Chairman

Thomas Villiger (1951) joined the Board of Siegfried Holding AG in 2011 and was appointed Vice-Chairman in 2015. He founded his own management consultancy in 2010. From 1986 to 2010, he was employed by Mepha Group, from 1997 onward he led the Mepha Group as a CEO. From 1980 to 1986, he worked in various functions for Sandoz in Basel, temporarily in Japan. He is a member of the Board of Sigvaris Holding AG, as well as the President of the Foundation Board of the Haiku Foundation. Thomas Villiger studied pharmacy in Bern and Zurich and holds a Ph.D. degree in chemistry from the Swiss Federal Institute of Technology in Zurich (1979). Thomas Villiger is a Swiss citizen.

Colin Bond
Member of the Board

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

Please find a photographic portrait of the Board of Directors on page 16.

Prof. Dr. Wolfram Carius
Member of the Board

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

Reto A. Garzetti
Member of the Board

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

Dr. Martin Schmid
Member of the Board

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

Ulla Schmidt
Member of the Board

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

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

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

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

3.4 Election and Terms in Office

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

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

3.5 Internal Organization

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

During the business year 2016, the Board of Directors met for three one-day ordinary meetings, two half-day ordinary meetings and a strategy meeting of two days. In addition, numerous teleconferences were held. With the exception of the strategy meeting and the half-day meeting taking place the same day at which two Board members were unable to attend, as well as of the half-day constituent meeting at which one Board member was unable to attend, all Board members were present at all meetings.

The following three Board Committees assist the Board of Directors:

- Audit Committee
- Remuneration Committee
- Strategy Committee

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

During the business year 2016, the Audit Committee met four times, the Remuneration Committee three times, and the Strategy Committee twice for half-day meetings. The following table shows the composition of the Board Committees for the term of office 2016 until 2017:

Committee	Chairperson	Members
Audit	Colin Bond	Reto Garzetti, Thomas Villiger
Remuneration	Thomas Villiger	Reto Garzetti, Martin Schmid
Strategy	Wolfram Carius	Reto Garzetti, Ulla Schmidt

3.6 Information and Control Instruments

The internal information and control system of the Board of Directors and the Executive Management is based on the following monthly reporting instruments: Revenues and other financial results of the Siegfried Group are presented in detail and compared with the budget and the previous year’s results – including a financial forecast for the entire year. Quarterly reports focus on budget deviations, important business incidents, and the most important key performance indicators. A five-year plan outlines the financial planning for the next five business years. The Internal Control System (ICS) and a comprehensive risk management procedure (described in detail on pages 115 et seq. of the Financial Report) further add to the Board’s information and control instruments.

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

4. Executive Management

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

4.1 Members of the Executive Management

Per November 1, 2016, Dr. René Imwinkelried took over the responsibility as Head Technical Operations from Dr. Walter Kittl who had been a member of the Executive Management since 2011. On an interim basis, Dr. René Imwinkelried continues to head Siegfried's Research & Development Department, which he has been leading since 2012.

As per December 31, 2016, the Executive Management of Siegfried comprised the following persons:

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

4.2 Management Contracts

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

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

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

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

4.4 Profiles

Dr. Rudolf Hanko
Chief Executive Officer

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

Please find a photographic portrait of the Executive Committee on page 17.

Michael Hüsler
Chief Financial Officer

Michael Hüsler (1972) joined Siegfried as Chief Financial Officer in 2009. He completed his studies in economics in 1997 at the University of Basel (Switzerland) and worked at Pricewaterhouse-Coopers as an auditor until 2000. From 2000 to 2005, he was corporate controller and ultimately, Head of corporate controlling at Straumann Holding AG. In addition, he completed his studies as a Certified IFRS Accountant in 2004. Michael Hüsler was CFO and member of the Executive Management at Bachem Holding AG from 2005 to 2009. Michael Hüsler is a Swiss citizen.

Dr. René Imwinkelried
Head Technical Operations/ Head Research & Development

René Imwinkelried (1957) was appointed Head of Technical Operations of the Siegfried Group per November 1, 2016. Since 2012, René Imwinkelried has been responsible for the Research & Development of the Siegfried Group, which he continues to head on an interim basis. He holds a Ph.D. in organic chemistry from the ETH Zurich and completed a post-doctoral fellowship at Colorado State University and Howard University (both USA). From 1991 to 2004, he worked in various R&D management positions at Lonza, and as Head of global chemical and physical sciences at US-based Schering-Plough. From 2010 to 2012, he was Head of "Technical Development Small Molecules" at Roche in Basel. René Imwinkelried is a Swiss citizen.

Arnoud M. Middel
Head Human Resources

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

Marianne Späne
Head Business Development, Marketing & Sales

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

Dr. Wolfgang Wienand
Head Strategy and M&A

As of December 1, 2011, Dr. Wolfgang Wienand (1972) was appointed Head Strategy and M&A with responsibility for Strategy, Mergers & Acquisitions, Legal and Intellectual Property Management. From 2010 to 2012, he served as Chief Scientific Officer heading Siegfried's research & development activities. In addition, since 2015, he is responsible for the Regulatory Affairs division. Before joining Siegfried, he held senior management positions at Evonik Industries AG, mainly in the fields of fine chemicals and custom manufacturing for the pharmaceutical industry. He was responsible for the strategy and business development of Evonik's advanced silanes business with the photovoltaic and semi-conductor industries. Wolfgang Wienand studied chemistry at the Friedrich-Wilhelms University in Bonn and received his Ph.D. from the University of Cologne, Germany. In addition, he holds an Executive Master Degree in International Finance of HEC Paris. Wolfgang Wienand is a German citizen.

5. Remuneration, Investments and Loans

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

For details regarding the remuneration and shareholdings of the members of the Board of Directors and the Executive Management as well the principles and elements of remuneration and the equity participation plans of members of the Board of Directors and the Executive Committee, together with a description of the authorities and procedures in connection therewith, please refer to the Remuneration Report on page 42 et seq. of this Annual Report.

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

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

Pursuant to article 24 of the Articles of Incorporation and subject to approval by the General Shareholders' Meeting, remuneration for members of the Executive Management consists of a fixed base remuneration in cash as well as performance-based remuneration, which comprises a short term performance-based remuneration in cash as well as a multi-year employee share ownership plan. The Board of Directors determines the targets, target levels, and target achievement for both the short- and the long-term performance-based remuneration in accordance with the principles set forth in the Articles of Incorporation. (cf http://www.siegfried.ch/fileadmin/Dateien/PDF/Others/2016-09/20160812__EN_Statuten_final.pdf)

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

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

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

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

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

Pursuant to article 25 of the Articles of Incorporation, Siegfried Holding AG may grant loans and credits to members of the Board of Directors and the Executive Management up to a maximum of the total of their respective individual fixed base remuneration in cash. In addition, Siegfried Holding AG may pay advances on attorney fees, court costs, and the like, up to a maximum of CHF 1 000 000 per member, in order to defend against liability and similar claims by third parties in connection with its activities performed for the company.

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

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

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

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

6. Shareholder Rights

6.1 Voting Rights and Proxy

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

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

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

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

6.2 Calling a General Meeting of Shareholders and Setting the Agenda

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

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

6.3 Entry into the Share Register / Invitation to the General Meeting of April 20, 2017

The Board of Directors has determined that the share registry for the Annual General Meeting 2017 will be closed on Monday, April 10, 2017. All Shareholders wishing to attend the Annual General Meeting of April 20, 2017, must submit their application for registration of shares in the share registry no later than said date. Admission tickets and voting materials may be ordered by submitting the registration form enclosed with the invitation to the Annual General Meeting until April 14, 2017, or electronically on the online platform under https://siegfried.shapp.ch until April 18, 2017. Upon receipt of the request, an admission ticket and the voting materials will be sent to the shareholder. No entries into the share registry will be made from April 11, 2017, until April 20, 2017. Shareholders who sell their Siegfried shares prior to the General Meeting of Shareholders forfeit their voting rights.

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

7. Control Changes and Defensive Measures

7.1 Mandatory Take-Over Offers

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

7.2 Change of Control Clauses

The Long Term Incentive Plan of the Siegfried Group (see Remuneration Report, page 51 et seq.) provides that:

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

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

8. Auditors

8.1 Contract Duration and Lead Auditor Term Length

PricewaterhouseCoopers AG (PwC), Basel (or its predecessor companies) has been the statutory auditor of Siegfried Holding AG since 1920. For the business year 2016, the current lead auditor, Gerd Tritschler, carried out the audit for the seventh time. The auditor is annually elected by the General Meeting of Shareholders.

8.2 Audit Fees

PwC billed the Siegfried Group for services in connection with auditing of the annual financial statement of Siegfried Holding AG and of the Siegfried Group companies, the consolidated 2015 financial statement of the Siegfried Group and related auditing services CHF 763 000 (2015: CHF 832 000).

8.3 Additional Fees

For tax consulting during 2015, PwC billed the Siegfried Group CHF 345 000 (2015: CHF 82 000), and for other services CHF 58 000 (2015: CHF 11 000) in additional fees. Further costs for tax consulting and other services by other auditors amounted in 2015 to CHF 29 000 (2015: CHF 59 000).

8.4 External Audit Informational Instruments

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

The auditor regularly attends the meetings of the Audit Committee; there were four meetings in 2016. During such meetings, the auditor presents detailed audit reports, which are also distributed to the Board. Assignments for PwC that go beyond the auditing mandate are subject to approval by the head of the Audit Committee.

9. Information Policy

The Siegfried Group is committed to an open and consistent information policy. The media, financial analysts and other interest groups are continuously informed about important developments and events.

Shareholders are informed semi-annually on the state of the business and receive the annual report and the semi-annual report upon request. The annual report, the minutes of the previous General Meeting, media releases, important information and the current share price can be found at www.siegfried.ch. A news conference is held semi-annually for the media and financial analysts.

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

In 2017, the Siegfried Group will inform about the course of business as follows:

- March 14, 2017: publication of results for the 2016 business year at a media and analyst conference in Zurich (media and financial analysts)
- April 20, 2017, 10:00 a.m.: Annual General Meeting of Shareholders
- August 23, 2017: publication of 2017 half-year financial results

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At Siegfried, we are mindful of our responsibilities towards our stakeholders and in our remuneration policy, as in all other areas of our business, we pursue a transparent, performance-based, and sustainable approach.

Remuneration Report

Remuneration Report

The Remuneration Report describes Siegfried Group's (Siegfried's) remuneration principles and defines the competencies and responsibilities associated with setting remuneration for members of its Board of Directors and Executive Committee. The report also contains detailed information about remuneration plans and payments made in the 2016 financial year.

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

The Remuneration Report is structured as follows:

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

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

Introduction by the Chair of the Remuneration Committee

Given that the remuneration of the Board of Directors, the Executive Committee, and non-management employees of the Group is an important topic for all of Siegfried's stakeholders, the Remuneration Committee again made concerted efforts in 2016 to ensure full and transparent compliance with the legal framework and internal guidelines. The following topics related to remuneration were addressed in 2016:

- Review of remuneration structure and remuneration amounts for the Board of Directors in line with three-year appraisal cycle
- Implementation of remuneration principles and instruments at the Evionnaz (Switzerland), Minden (Germany) and St. Vulbas (France) sites acquired on October 1, 2015

This report provides detailed explanations of our remuneration principles and model; it sets out how the remuneration plans work and highlights how they are linked to enterprise value and target achievement. The report also gives a transparent picture of key remuneration elements and amounts paid to the Board of Directors and Executive Committee in the reporting year, as per legal requirements.

As explained in the general section of the annual report, 2016 was another challenging year for Siegfried from an operational point of view. As in previous years, the Board of Directors, along with the CEO and the Executive Committee, set very ambitious goals for the company, designed to ensure a long-term increase in enterprise value. At Group level, these goals were not fully met, and this is reflected in the target achievement figures. This deliberately and systematically pursued linkage has shown itself to be effective: if the operational EBITDA and ROCE targets are not met or are only met in part, the total amount available for distribution in the form of short-term, performance-based incentives is reduced.

1. Competencies and Tasks of the Remuneration Committee

In accordance with the articles of incorporation, the Remuneration Committee is composed of at least two members of the Board of Directors, who are each elected by the General Meeting for a one-year term of office. Dr. Thomas Villiger (Chair), Reto Garzetti and Dr. Martin Schmid were elected to the Remuneration Committee for the 2016/2017 term of office. The Remuneration Committee shall constitute itself. It may appoint a chairman from among its members.

The Remuneration Committee supports the Board of Directors in

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

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

2. Procedures for Setting and Approving Remuneration

Regular Benchmarking and External Consultants

In keeping with normal industry practice, Siegfried regularly benchmarks remuneration levels for its employees against those of other multinational companies in order to ensure competitiveness on the labor market. Employees who satisfy the technical and behavioral criteria associated with a given position and meet agreed performance targets receive a total remuneration package that is in line with the benchmark market median for similar positions in comparable companies. For this purpose, Siegfried works with independent external remuneration specialists.

The remuneration packages of Siegfried's Executive Committee and Board members are regularly reviewed and compared with data from executive studies, benchmarks, and disclosures of companies that are comparable in terms of size and structure, business mix, model, and geographical structure; the extent to which the selected companies compete with Siegfried for the same highly qualified employees is also factored into the equation. The remuneration packages of Siegfried's Executive Committee were last reviewed in 2015, on the basis of an executive study undertaken in collaboration with Mercer as the external partner.

Process for Approving Remuneration

Remuneration is set and approved as follows:

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

The following remuneration elements were approved at the General Meeting on April 15, 2016:

— Maximum total for overall remuneration of the Board of Directors for the 2016/2017 term of office (CHF 1 580 000)
— Maximum total for the fixed overall remuneration of the Executive Committee for 2017 (CHF 3 700 000)
— Short-term, performance-based remuneration for the Executive Committee for 2015 (CHF 1 353 420)
— Long-term, performance-based remuneration for the Executive Committee for 2016 (CHF 1 935 000)

Likewise, the proposals relating to the structure described above will be put before the General Meeting on April 20, 2017.

3. Principles of Remuneration Policy and Remuneration Elements

Principles of Remuneration Policy

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

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

Remuneration Elements

In line with market practice, Siegfried's remuneration model is designed as a package consisting of fixed and performance-based elements.

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

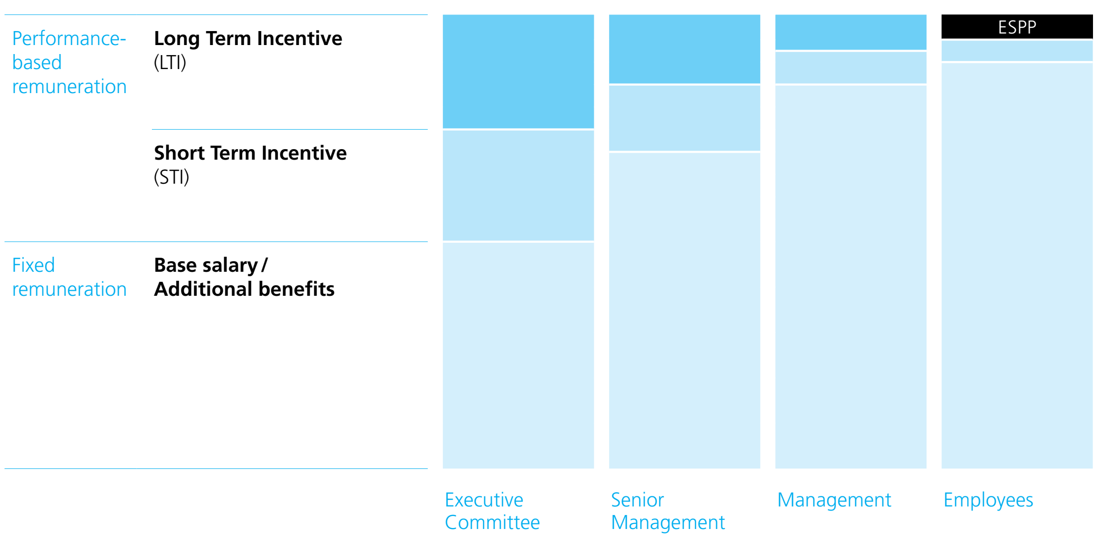
1. Fixed remuneration – annual base salary

2. Performance-based remuneration
   (i) Short-term, performance-based remuneration (Short Term Incentive Plan, STIP)
   (ii) Long-term, performance-based remuneration (Long Term Incentive Plan, LTIP)

3. Additional remuneration elements
   (i) Additional benefits, in line with market practice
   (ii) Employee Share Purchase Plan (ESPP)

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

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



Fixed Remuneration – Annual Base Salary

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

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

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

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

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

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

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

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

Individual targets relate to the performance of the employee and usually take the form of project, leadership, or behavioral targets which are agreed bilaterally between the line manager and the employee. At the end of the one-year performance period, target achievement of the corporate, functional, and individual targets is assessed. The achievement scale ranges from 0 to maximum 200% for corporate targets, and from 0 to maximum 150% for functional and individual targets. An individual's overall target achievement is derived from the weighted sum of target achievements. The individual STI is calculated by multiplying the target STI amount by the overall target achievement.

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

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

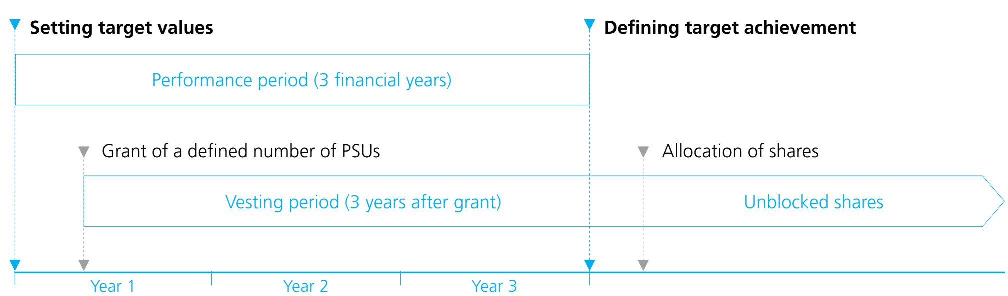
Actual STI: target STI (10%) × overall target achievement (110%) = 11% of annual base salary

In the year 2016, corporate targets – which apply at all locations – reached 73.0% achievement (EBITDA 90.1%; ROCE 55.9%).

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

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

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



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

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

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

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

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

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

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

Furthermore, shares may only be transferred following the three-year vesting period provided the plan participant has a valid employment relationship with the company.

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

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

Overview of Outstanding PSUs

	2014	2015	2016
Number of PSUs granted	25 076	25 409	29 757
Outstanding PSU grant as per December 31, 2016	20 186	21 494	26 512
Lapsed PSUs as per December 31, 2016[1]	4 403	3 782	3 213
Shares granted from PSUs as per December 31, 2016[2]	487	133	32

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

Additional Benefits

Additional benefits include, first and foremost, retirement pensions and insurance to cover staff in the event of disability, death, or illness. They provide security for employees and their families in the event of retirement, illness, incapacity for work, or death. The form and amount of such additional benefits are governed by local market circumstances, legislation, and customs.

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

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

Both employee and employer contribute to the aforementioned pension plans.

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

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

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

Employee Share Purchase Plan (ESPP)

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

4. Remuneration of the Board of Directors

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

The cash component consists of a base fee for the Board mandate, and fees for individual functions as Chairman or Vice-Chairman of the Board of Directors or as Chair of a Committee of the Board. In addition, for each term of office, Board members receive an expense allowance covering all incidental expenses relating to their professional duties.

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

The following table shows remuneration rates for the 2016/2017 term of office:

Base Fee	Cash component	Lump sum expense allowance	Number of restricted shares
Chairman of the Board of Directors	160 000	20 000	1 000
Vice-Chairman of the Board of Directors	80 000	10 000	500
Other members of the Board of Directors	60 000	10 000	500
Fees for individual functions			
Chair of Committee	20 000		

The Board of Directors reviewed the remuneration of its members during the reporting period and has decided to reduce both the cash component and the number of allocated shares blocked for a period of three years with effect from the 2017/2018 term of office. The Board of Directors will continue to review – and if necessary adjust – the remuneration model and amounts at regular intervals in the future. The revised remuneration model and rates are effective as per the 2017/2018 term of office and will be presented for approval at the 2017 General Meeting.

The following tables show remuneration paid/allocated in the reporting year and the prior year.

Remuneration of the Board of Directors is shown by financial year. The share component of the remuneration is valued as per Swiss GAAP FER.

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

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

The remuneration figures shown in the table are gross amounts and were booked according to the accrual principle (4/12 for the 2015/2016 term of office; 8/12 for the 2016/2017 term of office).

[1] Fixed number of shares as part of Board of Directors remuneration; valued as per Swiss GAAP FER.

[2] Incl. social security deductions on the tax value of the pro rata share component of the fixed Board of Directors remuneration (allocated in 2016) for the 2016/2017 term of office.

[3] Fulfills social security obligations in his principal country of employment.

In 2016, no remuneration was paid to the members of the Board of Directors other than that presented above.

During the 2016/2017 term of office, Board of Directors remuneration is projected to total CHF 1.47 million; the figure approved at the General Meeting was CHF 1.58 million.

Remuneration Paid to the Board of Directors for the 2016/2017 Term of Office (Projection)

Board of Directors	Cash remuneration	Lump sum expense allowance	Total cash	Share-based remuneration term of office[1]	Employer contributions to social security[2]	**Total remuneration term of office 2016/2017**
Andreas Casutt (Chairman)	160 000	20 000	180 000	183 400	18 707	382 107
Thomas Villiger (Vice-Chairman; Chair of Remuneration Committee)	100 000	10 000	110 000	91 700	9 144	210 844
Colin Bond (Member; Chair of Audit Committee)	80 000	10 000	90 000	91 700	9 798	191 498
Wolfram Carius[3] (Member; Chair of Strategy Committee)	80 000	10 000	90 000	91 700		181 700
Reto Garzetti (Member)	60 000	10 000	70 000	91 700	8 615	170 315
Martin Schmid (Member)	60 000	10 000	70 000	91 700	8 496	170 196
Ulla Schmidt[3] (Member)	60 000	10 000	70 000	91 700		161 700
Total (term of office 2016/2017, serving members)[4]	**600 000**	**80 000**	**680 000**	**733 600**	**54 760**	**1 468 360**
Approved by the General Meeting for 2016/2017 term of office						**1 580 000**

The remuneration figures shown in the table apply to the 2016/2017 term of office (May 2016– April 2017).
1 Fixed number of shares as part of Board of Directors remuneration; Value per share as approved by the General Meeting 2016 (CHF 183.40).
2 Incl. social security deductions on the tax value of the share component of the fixed Board of Directors remuneration (allocated in 2016) for the 2016/2017 term of office.
3 Fulfills social security obligations in his principal country of employment.
4 Projected total until the end of the 2016/2017 term of office.

Remuneration Paid to the Board of Directors in the 2015 Reporting Year (Audited)

Board of Directors	Cash remuneration	Lump sum expense allowance	Total cash	Share-based remuneration 2015[1]	Employer contributions to social security[2]	Total remuneration financial year 2015
Andreas Casutt (Chairman)	160 000	20 000	180 000	157 007	17 118	354 125
Thomas Villiger (Vice-Chairman; Chair of Remuneration Committee)	93 334	10 000	103 334	78 503	9 660	191 497
Colin Bond (Member; Chair of Audit Committee)	80 000	10 000	90 000	78 503	8 938	177 441
Wolfram Carius[3] (Member; Chair of Strategy Committee)	73 333	10 000	83 333	78 503		161 836
Reto Garzetti (Member)	60 000	10 000	70 000	78 503	7 750	156 253
Total (serving members on December 31, 2015)	**466 667**	**60 000**	**526 667**	**471 019**	**43 466**	**1 041 152**
Felix K. Meyer[4] (former Vice-Chairman & Chair of Strategy Committee)	33 333	3 333	36 666	27 037	3 343	67 046
Total (on December 31, 2015, including former members)	**500 000**	**63 333**	**563 333**	**498 056**	**46 809**	**1 108 198**

The remuneration figures shown in the table are gross amounts and were booked according to the accrual principle (4/12 for the 2014/2015 term of office; 8/12 for the 2015/2016 term of office).
1 Fixed number of shares as part of Board of Directors remuneration; valued as per Swiss GAAP FER.
2 Incl. social security deductions on the tax value of the pro rata share component of the fixed Board of Directors remuneration (allocated in 2015) for the 2015/2016 term of office.
3 Fulfills social security obligations in his principal country of employment.
4 Dr. Felix K. Meyer tendered his resignation as Vice-Chairman of the Board and Chair of Strategy Committee at the General Meeting on April 14, 2015.

5. Remuneration of Executive Committee Members

Siegfried's remuneration model is designed as a package consisting of fixed and performance-based components in line with market practice. The Executive Committee's remuneration is comprised of a fixed base salary, a short-term, performance-based component (STI), a long-term, performance-based component (LTI), and additional benefits. When the remuneration structure was defined, the envisaged guidance figures were set as follows: the CEO's total target remuneration is comprised of 40% of the fixed base salary (50% for the Executive Committee), and 30% each for the short- and long-term performance-based components (STI and LTI) (25% each for the Executive Committee).

The following table summarizes the Executive Committee's remuneration in the reporting year and indicates the highest individual remuneration for services rendered in the reporting year (CEO). The remuneration is broken down into the components listed above: fixed base salary, short- and long-term performance-based remuneration, and social security expenditure. The performance-based STI and LTI components are described in more detail later in this report.

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

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

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

In 2016, no remuneration was paid to the Executive Committee members other than that presented above.

The value of the PSUs granted to members of the Executive Committee for the three-year performance period January 1, 2016 – December 31, 2018 under the LTIP is reported once and in full as Executive Committee remuneration in 2016. In 2016, the CEO and the Executive Committee were granted a total of 12 000 PSUs. At the time of allocation, an external valuation expert used best practice methods to determine the fair value of one PSU as CHF 103.52. This fair value at the time of allocation is the amount based on which remuneration in the reporting year and relevant social insurance contributions due are calculated. In the event of a share transfer, the actual income received by Executive Committee members at the end of the vesting period may deviate from the fair value assigned to the PSUs on allocation: this is due to the performance factor and the share price at the time of transfer.

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

PSUs Allocated to the CEO and Executive Committee in the 2016 Reporting Year

Plan period	Executive Committee	PSU grant date	Performance period	Vesting period	Vesting date	Value at 100% target achievement: PSUs allocated[1]	Value at 100% target achievement: Value of allocated PSUs[2]	Value at 100% target achievement: Social insurance contributions on value of PSUs[3]	Potential target achievement
2016–2018	Rudolf Hanko, CEO	23.03.2016	01.01.2016–31.12.2018	23.03.2016–23.03.2019	23.03.2019	3 600	372 672	26 087	0%–200%
	Other members of the Executive Committee[1]					8 400	869 568	60 870	
Total						**12 000**	**1 242 240**	**86 957**	
Total cost to enterprise							**1 329 197**		
Approved sum by General Meeting[4]							**1 935 000**		

[1] Incl. Walter Kittl's PSU allocation; as per the LTIP Regulations, these lapse without remuneration due to his exit.
[2] PSUs are valued as per external consultant ALGOFIN (CHF 103.52 per PSU).
[3] Includes an assumed 7% social insurance contribution.
[4] Approval of PSUs allocated in the financial year 2016 for the performance period 2016–2018 at the General Meeting 2016.

Remuneration Paid to the CEO and Executive Committee in the 2015 Reporting Year (Audited)

CEO and Executive Committee	Fixed remuneration in cash	Short-term, performance-based remuneration (STI) in cash[1]	Total cash payments	Long-term, performance-based remuneration (LTI) in PSUs[2]	Employer contributions to social security[3]	Employer contributions to pension fund	Total remuneration 2015[4]
Highest individual remuneration: Rudolf Hanko, CEO	570 000	353 799	923 799	261 612	76 040	95 337	1 356 788
Other Executive Committee members	2 092 400	911 080	3 003 480	599 529	228 498	294 275	4 125 782
Total (at December 31, 2015)	**2 662 400**	**1 264 879**	**3 927 279**	**861 141**	**304 538**	**389 612**	**5 482 570**

The remuneration figures shown in the table are gross and are based on the accrual principle.
[1] To be paid out in April 2016 after approval at General Meeting.
[2] Includes PSUs granted in 2015 for plan period 2015–2017; PSUs are valued as per external consultant ALGOFIN (CHF 72.67 per PSU).
[3] Includes an assumed 7% social insurance contribution on both the 2015 STI and PSUs granted in 2015.
[4] Doesn't include fringe benefits (REKA money, child and family allowances, employer contributions to BU/NBU) in the amount of CHF 20 000.

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

Shareholdings of Board Members

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

	December 31, 2016		December 31, 2015	
Board of Directors	Total shares	of which restricted	Total shares	of which restricted
Andreas Casutt (Chairman)	17 500	3 000	16 500	7 975
Thomas Villiger (Vice-Chairman)	5 735	1 500	5 735	4 117
Colin Bond (Member)	2 000	1 500	1 500	1 500
Wolfram Carius (Member)	1 500	1 500	1 000	1 000
Reto Garzetti (Member)	14 034	1 500	13 534	5 642
Martin Schmid (Member)	500	500		
Ulla Schmidt (Member)	500	500		
Total (serving members)	**41 769**	**10 000**	**38 269**	**20 234**
In % of share capital	**1.00%**	**0.24%**	**0.92%**	**0.49%**

Shareholdings of Executive Committee Members

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

	December 31, 2016		December 31, 2015	
Executive Committee	Total shares	of which restricted	Total shares	of which restricted
Rudolf Hanko (CEO)	69 000	2 272	70 000	31 344
Michael Hüsler (CFO)	13 500	1 062	16 002	15 512
René Imwinkelried (Head Technical Operations and R&D)	10 122	1 223	11 622	6 824
Arnoud Middel (Head HR Global)	4 300	1 032	6 425	6 418
Marianne Späne (Head Business Development & Sales)	19 416	1 416	25 180	17 145
Wolfgang Wienand (Head Strategy & MA, Legal)	11 716	1 098	13 716	12 905
Walter Kittl (Head Technical Operations)[1]			14 054	11 854
Total	**128 054**	**8 103**	**156 999**	**102 002**
In % of share capital	**3.07%**	**0.19%**	**3.78%**	**2.46%**

[1] Walter Kittl left the company on October 31, 2016.

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

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

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

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

As of December 31, 2016, Siegfried Holding AG and its Group companies do not have any outstanding securities, loans, advances or credits to members of the Board of Directors or the Executive Committee of Siegfried Holding AG. Further, no securities, loans, advances or credits were granted at non-market rates to persons affiliated with current members of the Executive Committee or Board of Directors or to former members of the Executive Committee or Board of Directors in 2016; nor are any such commitments outstanding as at December 31, 2016.

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report of the Statutory Auditor on the Remuneration Report

We have audited the accompanying remuneration report (tables on pages 56, 57, 58 and 60 as well as page 62) of Siegfried Holding AG for the year ended December 31, 2016.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report of Siegfried Holding AG for the year ended December 31, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Gerd Tritschler
Audit Expert
Auditor in charge

Andreas Kägi
Audit Expert

Basel, March 10, 2017

Sustainability Report

This chapter can be downloaded as a PDF at report.siegfried.ch

Sustainability Report

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

1. Corporate Principles

Siegfried's Board of Directors and Executive Committee are the highest institutions responsible for implementing and maintaining the company's sustainability policies and guidelines. The Compliance Committee and, therefore, the Chief Compliance Officer are responsible for the implementation of the compliance and quality standards and for safety, health and the environment. The Code of Conduct is under the supervision of the secretary of the Board of Directors. At Siegfried, sustainability is based on the guidelines issued by the Global Reporting Initiative (GRI) (cf. "About this Report", page 97). The Sustainability Report represents an integral part of the Annual Report.

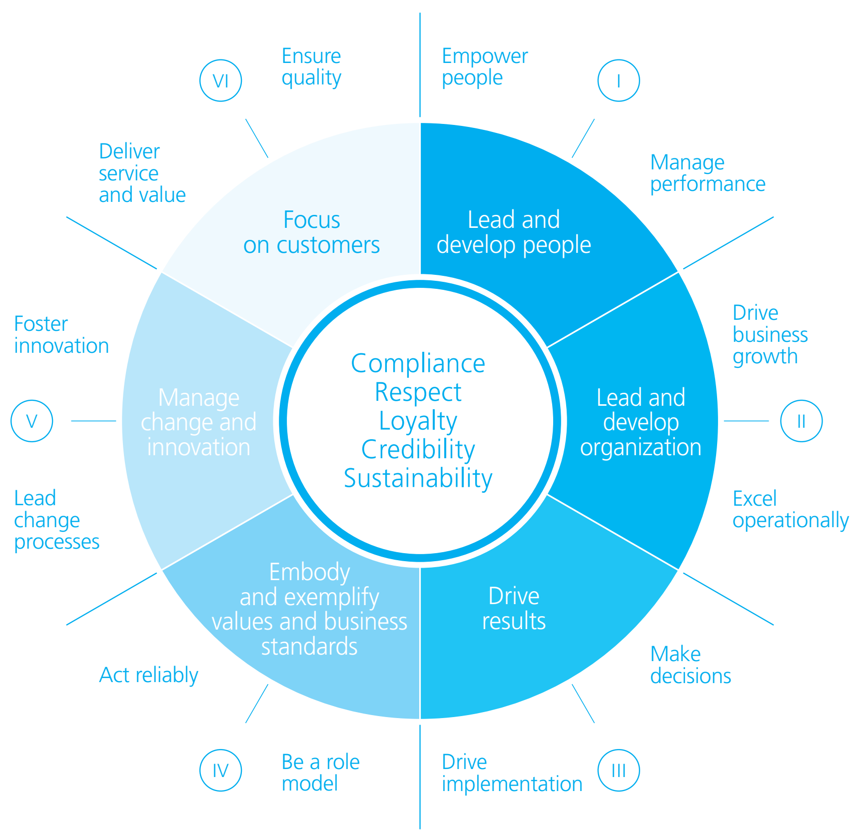
In the life science industry, sustainability is more than a buzzword. The activities of each individual market participant are monitored critically by the authorities, customers and consumers. Sustainability at Siegfried is a fundamental part of corporate strategy and integrated in our daily work. We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

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

Leadership and Values at Siegfried

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

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



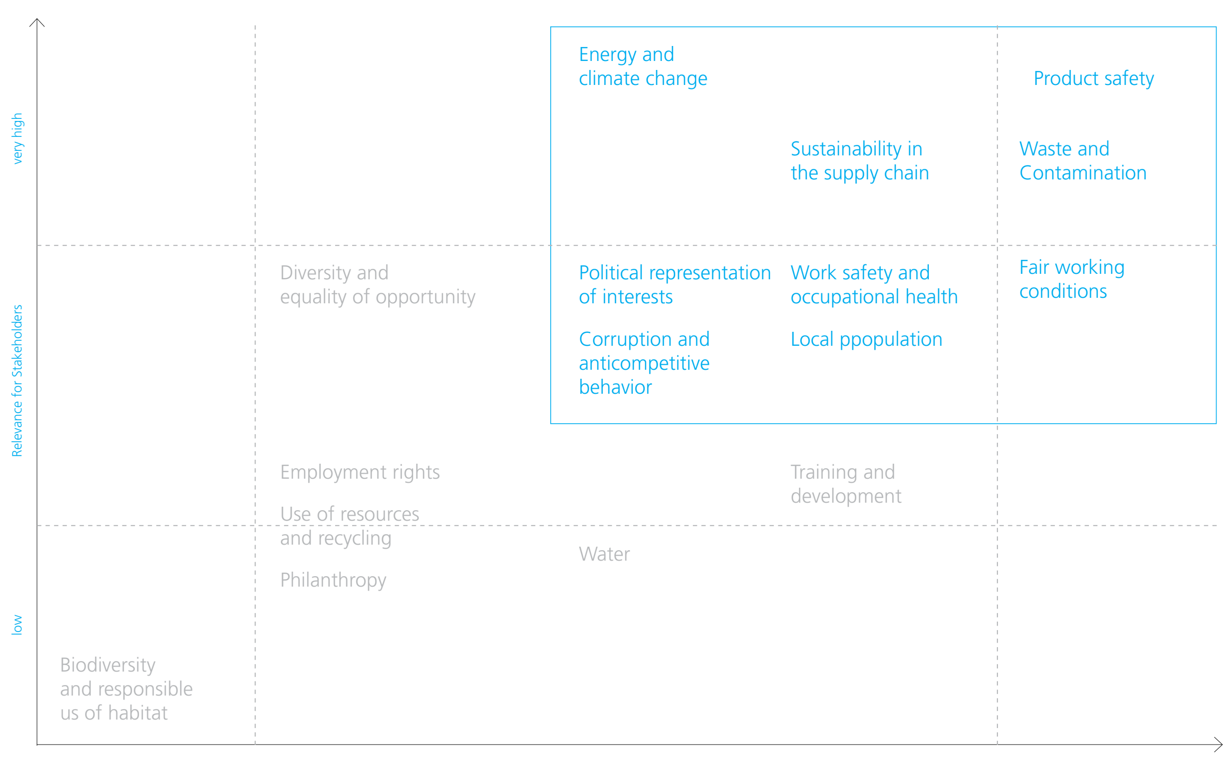
Siegfried's Leadership Model

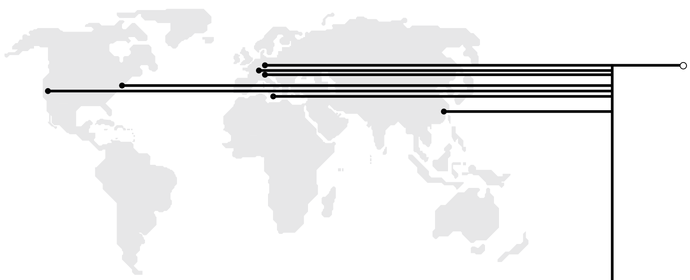
Materiality Analysis

Within the parameters of a multi-step process carried out in 2016 in a materiality workshop, Siegfried identified the following topics of relevance to sustainability reporting:

- Product safety
- Waste and contamination
- Fair working conditions
- Sustainability in the supply chain
- Work safety and occupational health
- Local population
- Energy and climate change
- Political representation of interests
- Corruption and anticompetitive behavior

These new topics of relevance to sustainability are shown in the materiality matrix below. The topics are essentially consistent with those mentioned in the previous year's report. Consideration is given to additional aspects that were only touched on previously, or not at all. Sustainability is understood to be an integrated approach implemented across the entire value chain.





Stakeholder Dialog

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

Stakeholder activities include targeted dialog on the local, national and international levels, involvement in committees and professional workshops, comprehensive information programs, and participation in international initiatives and cooperations. Stakeholder dialog comprises communication and active interaction with individual target groups as well as issue-related multi-stakeholder approaches. Our aim is to understand the different perspectives held by our stakeholders and to address them effectively.

Media

Media conferences, media releases, direct contact with CorpCom

Capital market

Financial analysts' conference, direct contact with CEO and CFO, roadshows

Customers

Meetings, visits, symposiums, trade fairs

Local stakeholders

Direct contact with site managers, sponsorship

Employees

Information or townhall meetings, "Insight" staff magazine, intranet, internet, internal releases, information cascade down line management

Unions

Information meetings with HR, direct contacts with line management

Supervisory and regulatory authorities

Direct contacts, audits, training events, information letters

Political decision makers

Company visits, seat on boards of professional associations (chambers of commerce, etc.), involvement of site managers

Suppliers

Visits, supplier audits, trade fairs

Science

Direct contact with universities and advanced technical colleges, symposiums

Associations

Seat on management bodies, exchange-of-experience groups

1.1 Political Representation of Interest

Reliable parameters and social acceptance of its corporate targets provide Siegfried with a stable environment for success also in its long-term activities. Remaining in dialog with society, politics and governments is a part of sustainable corporate management and allows us to find viable solutions. This dialog is subject to Siegfried's entrepreneurial principles and based on the values of honesty and objectivity.

Exchange with political bodies and political decision makers serves to maintain good parameters for the industry in general and, in particular, for the chemical-pharmaceutical industry. We are committed to a competitive location, an innovative environment as the basis for research and development, and an outstanding educational system in the vocational and academic areas. Free market access on a global basis is of great significance for Siegfried.

Important current issues are:

— Research and innovation
— Education
— Open borders and the connected possibility to attract the best talents for Siegfried
— Free movement of goods
— Comparable conditions for all manufacturers worldwide, also in terms of the regulatory environment

Siegfried is committed to these issues Europe-wide, at its headquarters in Switzerland and at its various sites.

Siegfried occasionally supports political parties, mainly in connection with referendums, or candidates who share the company's political goals.

1.2 Social Responsibility

Siegfried's responsibility goes beyond the company's immediate influence. Whenever in our power, we contribute toward a future-oriented social development. Social commitment is firmly rooted as an integral component of our corporate vision. We invest, in particular, in the sustainable development and promotion of training projects and support various local community associations. We are convinced that our commitment benefits the local population.

As a responsible corporation and employer, Siegfried takes its social responsibility seriously by supporting social projects as well as cultural and sports associations in the region surrounding our sites. Siegfried places great emphasis on training projects, especially in the field of science, with the aim of familiarizing young people with the natural sciences as early as possible and to demonstrate career possibilities in this field. Siegfried allocates a sizeable amount every year to such activities at all of its sites.

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

In Switzerland, the main focus of Siegfried's attention is on the Zofingen/Aargau region. Among others, Siegfried supports:

- social projects in Switzerland
- the political commitment of employees by regulating their working hours flexibly
- cultural and sports clubs in the region
- youth work

The company is a member of scienceindustries, the umbrella association Chemie Pharma Biotec, the Swiss Chemical Society and the Swiss Society for Health Politics. Siegfried is furthermore a member of Park InnovAARE, an organization that brings together business and science in the Canton of Aargau. The head of Pharmapark Zofingen serves on the boards of scienceindustries and Canton of Aargau Chamber of Trade and Industry, and he is president of the Region of Zofingen Business Association.

Outlook

Siegfried will continue to assume its social responsibility in the future, maintain its memberships and cultivate contact with the local population in order to create a sustainable basis of trust. Siegfried's goal is to increasingly establish such commitments group-wide and take better advantage of synergies among the various sites, regions and countries.

1.3 Program concerning Compliance with Legal Regulations

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

The purpose of the Program concerning compliance with legal regulations, which was comprehensibly revised and implemented globally in 2016, is to raise awareness and to harmonize the understanding within Siegfried of lawful conduct in business dealings. The Program specifies measures that will effectively and efficiently prevent violations of the law and their harmful consequences and penalties for such violations. The Legal Compliance Office coordinates implementation and communication of the program and aims to continuously improve the Program in accordance with current industry standards.

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

Furthermore, Siegfried prohibits its employees and suppliers from having any involvement in conduct in breach of supranational and/or national applicable laws that protect free and fair competition. Siegfried's employees and suppliers must perform their activities for Siegfried within the boundaries of European competition law, of US antitrust law, of Chinese anti-monopoly law, as well as all other applicable competition regulations.

Reference Framework

Siegfried's Code of Business Conduct, available in the four company languages German, English, French and Chinese, intends to provide its employees and suppliers with a frame of reference and awareness of the most important critical legal fields and applicable laws, such as Bribery and Corruption, Competition Law, Insider Trading, Fraud, Offenses against Property and Data Integrity, Confidentiality and Data Protection, Conflicts of Interest, Trade Controls and Embargoes, as well as Discrimination and Harassment. The Code can be accessed on our website (www.siegfried.ch).

In the course of 2016, the Code of Business Conduct was updated and introduced at seven Siegfried sites. The aim of the update and worldwide roll-out was to make our employees at the sites aware of the meaning and importance of the legal directives and to urge them to report any indications pointing to a violation of the law.

Failure to comply with the standards outlined in this Code of Business Conduct and/or the underlying Legal Compliance Manual may result in disciplinary action, including termination of the employment or representation agreement, and may carry serious consequences, such as civil legal proceedings, criminal legal proceedings, fines, terms of imprisonment and/or loss of reputation.

Outlook

With the aim of reaching all of Siegfried's approximately 2300 (FTE) employees, the roll-out of the Program concerning compliance with legal regulations will be implemented at the two remaining sites in the course of 2017. In addition, in 2017, an external reporting office will be appointed to report real and potential violations of the Code of Conduct. Moreover, training in the field of corruption and bribery is planned for all Siegfried sites and, for the sales team, training in the area of competition law.

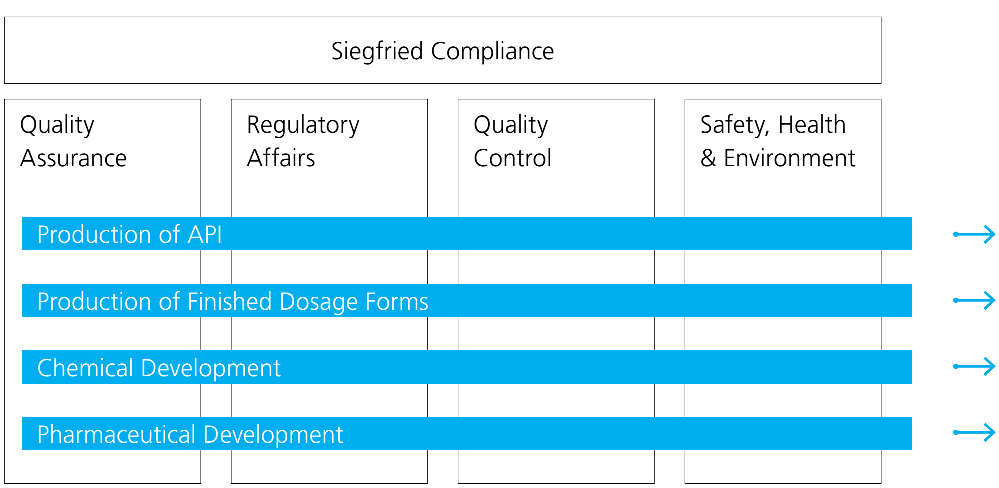
2. Quality Compliance

Siegfried's commitment to corporate leadership is based on quality awareness and the constant improvement of all of its processes and activities. Quality is, therefore, an important part of corporate policy and reflected in daily work processes. Siegfried conducts its business activities responsibly and in conformity with the legal regulations of the countries in which we operate.

Siegfried created a comprehensive compliance management system for quality along the entire value chain. It is based on the process orientation of ISO 9001 for quality management and ISO 14001 for environmental management, and it encompasses the following international guidelines:

- Current Good Manufacturing Practice (cGMP) (https://ec.europa.eu/health/human-use/quality_en)
- Guidelines issued by the international Conference for Harmonization (ICH) in cooperation with regulatory authorities and experts from the pharmaceutical industry in America, Europe and Asia (www.ich.org)
- Guidelines issued by the World Health Organization (WHO) (www.who.int)

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



By implementing an integrated quality management system we give consideration to the quality concerns of our internal and external customers. Our established compliance record reflects our core competencies as well as the strong values our customers benefit from in a partnership with Siegfried.

We control the relevance and applicability of our guidelines in regular intervals. On December 31, 2016, 31 such guidelines were in force. They relate mainly to aspects of quality but also refer to corporate finance and SHE as well as communication and the conduct of employees (Code of Conduct).

Integration of the New Sites

The successful inspection of the US-FDA mid-2016 concluded the integration of the Hameln site for which we acquired support from an external firm of consultants. Simultaneously, the three new sites in Evionnaz, St. Vulbas and Minden had to be integrated into our Compliance System, which was not entirely completed in 2016. Nevertheless, in a complex transition phase the inspections by the national authorities and the US-FDA were successful at all three sites.

In Nantong, a tested GMP structure and a safety concept based on that in Zofingen are now in place, and production has thus started. Several customer audits have been carried out in 2016. While they have confirmed that we are on the right track, there is room for improvement in certain areas.

Inspections and Audits

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

As a rule, inspections by the authorities are carried out

— in the USA by the Food and Drug Administration (US-FDA) and for narcotics by the Drug Enforcement Administration (DEA)
— in Switzerland by Swissmedic which in turn delegates the inspection to the "Regionales Heilmittelinspektorat Nordwestschweiz" (RHI) and by the US-FDA
— in Malta by the Medicines Authority Malta (MAM) and the US-FDA
— in Germany by the regional councils and the US-FDA
— in France by the national French authority (ANSM) and the US-FDA

In 2016, GMP inspections by the authorities were carried out at several sites with a positive result, and the responsible authorities issued or renewed the licenses (refer to http://www.siegfried.ch).

Concerning several hundred successful inspections and audits in recent years – over 40 in 2016 in Zofingen alone – Siegfried had a good opportunity to measure itself against the systems of other companies and against requirements defined by the authorities and to draw conclusions as to its own interpretation of guidelines. This created a sense of security for our quality management system. Moreover, this system serves to convince customers of our performance.

Customer Dialog

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

The number of significant observations in audits by our customers in Zofingen has declined continuously in past years. In Zofingen, Siegfried receives on average one customer per week for an audit. Pennsville, Irvine and Malta are very stable and recorded no significant problems.

Quality Agreements with Customers

Customer requirements are extremely varied. On the one hand, they are getting increasingly demanding and, on the other hand, deadlines are getting shorter or production has to be carried out in line with specific customer standards. The prescribed quality agreements between Siegfried and its customers represent a big challenge for the company. With an active customer base of over 100, several parallel customer-specific quality-management systems cannot be handled in daily operations. That is the reason why the level of Siegfried's own quality-management system is so high because it has to satisfy a range of customer requirements. In 2016, about 200 quality agreements for the Siegfried sites were signed with our partners. Over 100 quality agreements are in the pipeline for verification or negotiation in 2017. The new Siegfried sites have been completely integrated into the system and, as a result, a growing number of contracts are signed between our customers and several sites.

Outlook

The high cGMP standard (current Good Manufacturing Practice) and Siegfried's quality image enjoy international recognition. Siegfried is aware of the fact that it is preferable to maintain high standards than restore a damaged reputation. Seeing that the demands made by industry guidelines and by customers change constantly, usually in the direction of higher demands made on us, we have to keep an eye on the situation at all times and take appropriate action.

In 2017, Siegfried will continue to work on standardization and harmonization of the quality-management system at all Siegfried sites. Currently, harmonization of the GMP processes has not yet been completed at the new sites in Minden, Evionnaz and St. Vulbas.

2.1 Sustainability in the Supply Chain

Maintaining sustainability standards in the delivery chain represents an elementary value adding factor and, at the same time, an important lever in the implementation of our "Code of Business Conduct" and for risk minimization. Securing sustainability along the entire delivery chain requires joint efforts and orientation toward long-term and value-oriented action. We are convinced that sustainability in the delivery chain can be obtained only by means of unambiguous rules concerning choice and qualification of our suppliers and in close cooperation with established suppliers.

We consider the cooperation with our suppliers to be an opportunity to integrate sustainability into the entire value-added process. Our suppliers play a decisive part in our sustainability performance, and that is why cooperation with them has to be based on principles that we share. A shared understanding of quality, reliability of supply, ethical and social standards, competitive prices and consistent implementation of the demands we make on sustainability in all production and business procedures represent an enormous challenge. Mastering this challenge is absolutely imperative especially owing to the complexity of the global supply chain and the large number of suppliers and sub-suppliers. We require our partners to live up to the same ecological and social standards as we do in terms of respect for internationally recognized human rights and employments rights, be it the strict prohibition of discrimination and harassment, maintaining environmental standards, the strict prevention of any kind of bribery or the sustainable use of raw materials.

Siegfried's management system stipulates that we produce in accordance with cGMP standards, act responsibly in compliance with economic and environmental standards and evaluate new technologies in terms of contribution to sustainability. National and international standards and guidelines represent the benchmark for developing our systems even further, be it concerning environmental awareness, occupational safety or Corporate Social Responsibility standards (CSR).

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

Cooperation with Suppliers

Audits are carried out periodically at the suppliers' locations. In terms of these audits, Siegfried monitors the social and ecological effects along the value-added chain and identifies potential risks, which Siegfried addresses and from which measures are deduced. Non-compliance with minimum standards will result in a delivery block or change of supplier. The majority of the audits are carried out by internal auditors complemented by a small number of external audits supervised by independent auditors.

In order to increase sustainability in the supply chain, we initiated a program for 2017 in terms of which site-specific need for action is examined based on an external audit of our management system by Ecovadis. The aim of the program is to raise reach and extent of sustainability aspects in the selection and qualification process of our suppliers.

Distribution

In distribution, our aim is to offer our customers high-quality products and services and build up long-term relationships with them. Distribution at Siegfried is strictly regulated and subject to relevant laws. The group-wide Code of Conduct makes no allowance for violation of the law and requires strict adherence to anti-corruption guidelines and antitrust legislation (for more on the topic of corruption see "Program concerning compliance with legal regulations", page 72). Targeted communication and addressing the manifold needs of our customer are of particular importance regarding the successful distribution of our products and services. Owing to the great diversity of this group, individual measures must be taken to enter into dialog with customers and gauge their satisfaction. Siegfried therefore operates an effective customer complaints management (for more on the topic of customer complaints management see the chapter on "Quality Compliance", page 74).

Qualification of Suppliers and Service Providers

Often, raw materials, pharmaceutical auxiliaries, packaging material, API components and occasionally APIs are purchased by manufacturers and suppliers abroad to be used by Siegfried. In such cases, Siegfried is responsible for qualifying these manufacturers and suppliers, and we therefore make use of an audit system to carry out qualification in accordance with applicable quality standards. The audit includes interviews with the manufacturers or suppliers, continuous monitoring of the quality of the supplied material and inspections of suppliers' production sites. The manufacturers usually produce in India, China and Taiwan. In 2016,
as in previous years, more than 40 audits of suppliers and service providers were carried out.

Quality Requirements and Quality Certificates

Triggered by a rising quality awareness, and consequently higher demands made on quality on the customer side, the number of inspections and certificates/statements required from the pharmaceutical industry is growing steadily, often due to accidents, counterfeiting and sub-standard mixtures. Today, in addition to analysis certificates, which have been required for a long time, concerning appearance, purity, content, physical characteristics and GMP-conform production of our products, customers and regulatory authorities today require data and certificates concerning genotoxic impurities, freedom of heparin adulteration, freedom of hidden genetically modified parts including TSE/BSE, melamine, benzene, etc. Siegfried works in close cooperation with the US-FDA concerning product piracy in order to combat counterfeiting and to safeguard consumer safety.

Good Distribution Practice (GDP)

Good Distribution Practice (GDP) is a topic that has gained significance since the introduction of new international guidelines in 2013. The aim is to ensure that the entire supply chain of materials from manufacturers/suppliers to Siegfried, and from Siegfried to our customers is safeguarded against incorrect transportation and storage conditions as well as fraudulent attempts at counterfeiting. In addition to product-specific determination of transportation and storage conditions, increasingly new requirements concerning measurement and documentation of transportation and storage conditions have to be fulfilled. Furthermore, Siegfried is obliged to ensure that products are delivered only to the authorized recipients. To meet these requirements, we adjusted our processes in SAP and ensured closer monitoring of the transportation companies we employ.

Outlook

All Siegfried sites have to pass an audit carried out by EcoVadis which is based on international CSR standards, including the Global Reporting Initiative, the United Nation's Global Compact, and ISO 26000 which covers 150 cost categories and 140 countries. The audit covers all relevant CSR topics, social, ecological and ethical aspects as well as the transparency of our supply chain. The Minden site is the first to complete self-evaluation while completion for the remaining eight sites is scheduled for end 2017.

Depending on the outcome of the individual site evaluations, measures will be defined to improve the CSR standard at all sites, including headquarters. In addition to new aspects concerning CSR to be integrated into our audit procedures, our forms for self-evaluation will be adjusted accordingly.

3. Safety, Health and Environmental Protection (SHE)

Safety, health and environmental protection are top priorities at Siegfried and firmly anchored in its corporate mission. According to this principle, our employees and teams of specialists are committed every day to continuously improve safety and minimize negative impact on the environment.

As a chemical-pharmaceutical company and a leading provider of controlled substances, occupational safety is a very important aspect at Siegfried, and the company works closely with professional service partners. Industrial specialists control and monitor the situation on the company's premises around the clock and supervise its central alarm system. Every year, cost and investments in safety, health, environmental protection and occupational safety amount to several millions (double-digit) of Swiss francs. Over 2% of Siegfried's global workforce is engaged full-time in safety, health and environmental protection to handle the SHE responsibilities.

Location	Number of employees working in SHE
Zofingen	12
Pennsville	6
Malta	1
Irvine	1
Nantong	5
Hameln	2
Minden	13
Evionnaz	13
St. Vulbas	4
Total	57

Policy Guidelines and Key Figures

Siegfried is a member of the "scienceindustries Switzerland", the umbrella association Chemie Pharma Biotec, and has signed the Responsible Care® program in 1992. The worldwide initiative signifies the determination of the chemical-pharmaceutical industry to strive for continuous improvement in the areas of safety, health and environmental protection, irrespective of statutory requirements, and to publicly present its progress on a regular basis. The Responsible Care® program has defined six principles:

— People and the environment are protected. This is a top priority.
— Plants are operated in such a way as to ensure safety, health and environmental protection. Products are safely manufactured, transported, used and disposed of with a lower impact on the environment.
— The possible impact of processes, products and waste on people and the environment is known. Cooperation with the authorities and third parties to implement actions for the protection of employees, the society and the environment.
— Support of business partners in the safe transport, safe handling and the safe and environmentally compatible use and disposal of products.

— Dialog with society is maintained. Communication regarding products, processes, equipment and their impact on people and the environment as well as precautionary protective measures.
— Products, processes and equipment are operated to ensure ecological, social and economic sustainability.

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

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

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

The implementation of our safety and environmental policies and compliance with regulations are primarily in the hands of our employees. They are responsible for their own safety-conscious and environmentally compatible conduct. The leadership at every organizational level is responsible for promoting safety and environmental sensitivity by specific general conditions and actions.

In addition to the global SHE campaigns, the various Siegfried facilities also have the option to roll out site-specific initiatives. After last year's suboptimal outcome with respect to workplace accidents, the Continuous-Improvement (CI) program was launched in Pennsville to heighten safety awareness. On February 29, 2016, the CI program was officially kicked off. Cross-departmental teams are expected to achieve improvements throughout the site by taking a variety of different approaches. The program has already shown results: after two workplace accidents early in the year, none have occurred since March. In Zofingen, a safety initiative was initiated to prevent accidents caused by tripping and falling. A number of activities are planned to make employees more aware of the risk of tripping.

2%

of Siegfried's workforce globally are engaged full-time in SHE.

6

principles are defined in the Responsible Care program, which strives for continuous improvement in the areas of SHE.

Siegfried uses Key Performance Indicators (KPI) to control management processes and performance evaluations. Such KPIs are also used for safety, health and environmental protection and to identify any corrective action that may be necessary.

Based on established accident and environmental parameters, we report on our activities and provide an extensive safety overview to interested parties. Additional information is available on our website (www.siegfried.ch).

3.1 Energy and Climate Change

The production of active pharmaceutical ingredients is energy intensive because, as a rule, it embraces several chemical stages. Moreover, some syntheses are sometimes carried out at either very high or very low temperatures. Both cases require a considerable amount of energy. Many of the initial products required for the production of drugs are petrochemical products. As Siegfried relies on petrochemical products, we show an interest in handling natural resources with consideration. That is one aspect; another is that the company and its employees are highly interested in containing the negative effects of global climate warming. We make an active contribution to this goal by returning waste material to the internal materials cycle.

In the past, various measures have been implemented. Several years ago, Siegfried completely replaced heavy fuel. Heating oil extra light are used to a limited extent. Today, environmentally friendly natural gas is the main energy source in heat production. The aim of regenerating more solvents in 2016 was achieved in terms of absolute numbers. The share of regenerated solvents compared to disposed solvents decreased to 33%.

Taking into operation of the new production building in Zofingen is under way. Production is already running in certain sections of the plant. The new building is considerably more energy efficient than the old ones it replaces.

Siegfried's energy consumption of 1656 terajoules (TJ) in 2016 was more than three times higher than that of the previous year. This is due mainly to the fact that the three sites acquired from BASF were included in the report. Higher energy consumption was, however, also recorded in Siegfried's "old" sites. The increase in energy consumption in these sites amounted to 20%. Of particular significance is the nearly double energy consumption compared to the previous year in the Nantong plant which is still in transition to commercial production. Energy consumption at all other sites – with the exception of Irvine – grew slightly. This is directly connected with higher production utilization.

Total electricity consumption at all plants amounted to 460.8 TJ. The consumption increase of 124% is due not only to the three additional plants; consumption increased also at the "old" sites.

At the Malta plant, the quantity of electricity produced in 2016 by means of photovoltaics, namely 1080 GJ, is slightly higher than the previous year.

CO_2 emissions proceed in line with energy consumption, which at 48 200 tons is nearly three times higher than that of the previous year. The fact that the increase is slightly lower than that for energy consumption is due to the slightly cheaper energy mix. The released volume of CO_2 at the "old" sites was slightly higher than that of the previous year.

The VOC volume emitted into the environment amounted to 65 tons, more than three times the volume compared to the previous year owing to the acquisition of the three BASF sites. The old sites recorded a slight decrease owing mainly to improved availability of thermal exhaust cleaning at the Zofingen site. The emission of carbon monoxide, nitrogen oxide and sulphur dioxide was included in the report for the first time and a comparison to previous years is therefore not available.

Outlook

The goal is to stabilize, or even reduce, energy consumption or rather the energy consumption standardized to sales. This can be achieved by means of shutting down old buildings that are inefficient in terms of energy and older facilities. A reduction in energy consumption is slowed down by the increasing share of production rooms and buildings equipped with a mechanical ventilation system, partly due to regulations. At the Minden site, the pumps in the production facilities will be retooled in 2017 in accordance with Germany's Clean Air Act, which will result in a lower emission of VOCs. Furthermore, improvements to the waste water treatment plants at the site will improve air quality.

1080

Gigajoule: this amount of electricity was produced at the Malta plant in 2016 by means of photovoltaics, a slightly higher amount than in the previous year.

2017

will the pumps in the production facilities at the Minden site be retooled, in accordance with Germany's Clean Air Act, which will result in lower emissions of VOCs.

Key Environmental Figures

	Unit	2016	2015	2014	2013	2012
Energy consumption						
Total energy	GJ	1 656 200	531 900	400 000	403 300	396 100
Natural gas	GJ	652 300	234 000	210 400	216 400	209 600
Heating oil	GJ	68 737	7 200	4 400	5 500	5 500
Alternative fuels (Solvents)	GJ	56 700	23 900	27 300	21 800	34 000
Electricity	GJ	460 800	205 200	145 600	147 000	134 700
Emissions						
CO_2 emissions [1]	Tons	48 200	16 300	15 000	15 100	16 200
VOC emissions	Tons	65	17	16	12	14
CO emissions	Tons	8.7	n.r.	n.r.	n.r.	n.r.
NO_X emissions	Tons	37	n.r.	n.r.	n.r.	n.r.
SO_2 emissions	Tons	6	n.r.	n.r.	n.r.	n.r.
Water / waste water						
Water consumption	m^3	6 871 000	2 456 000	2 071 000	2 103 000	2 047 000
TOC emissions [2]	Tons	144	536	454	509	494
Nitrogen emissions	Tons	67	n.r.	n.r.	n.r.	n.r.
Phosphorus emissions	Tons	1.9	n.r.	n.r.	n.r.	n.r.
Waste						
Total waste [3]	Tons	50 400	16 200	13 500	15 900	15 700
Chemical waste	Tons	47 600	13 800	11 700	14 600	14 700
Waste solvents	Tons	45 800	12 500	10 400	13 900	13 200
Recycling						
Reclaimed solvents	Tons	15 100	6 400	2 150	2 720	3 330
Externallly recycled wastes [4]	Tons	15 700	2 160	2 230	1 170	1 710

n.r. = not recorded

1 Emission treatment plants without CO_2
2 Starting 2016, TOC emission is recorded in accordance with emission treatment plants
3 Without sewage sludge
4 Including regenerated solvents

3.2 Waste and Contamination

By its very nature the production of active pharmaceutical ingredients results in the accumulation of large quantities of waste because manufacturing processes are complex and lengthy. The waste contains by-products of a synthesis which are sometimes harmful for human health and the environment. It is therefore important that this kind of waste is handled with care in order to prevent negative influences on eco-systems. Siegfried meets all requirements of the authorities and is in possession of the necessary licenses.

Siegfried meets the defined environmental standards and cultivates regular dialog and an exchange of ideas with the environmental authorities. Concerning the Zofingen site, this resulted in a cooperation agreement signed in summer 2016 with the Canton of Aargau environmental authority.

In March 2016, at the site Evionnaz, a pump system with activated carbon filtration for the treatment of underground water sources was installed. It is a pilot plant with which the effectiveness and exact dimensioning can be determined. The water treatment with a capacity of over 100 000 cubic meters per year will be taken into operation in the current year. In addition to the pilot pump system, a test with a pore-air exhaust and regeneration system was run. These rehabilitation measures are carried out in close cooperation with Canton of Aargau authorities.

Lower discharge of active pharmaceutical ingredients at the Zofingen site continued. Tests were carried out for several manufacturing processes and, where necessary, waste water treatment was implemented.

Water consumption increased by factor 2.8 when compared to the previous year. The reason for this is the first-time inclusion of data concerning the three former BASF sites in Minden, Evionnaz and St. Vulbas. This is not the only reason, because water consumption in Zofingen also grew considerably due to taking into operation the new production building.

TOC emissions released into the environment via waste water amounted to 143 500 tons. This amount is lower than the one published the previous year although three additional sites have been included. This is due to the adjustment of data, as formerly, depending on the site, TOC emissions were measured before or after the water treatment plant. In terms of this report, the TOC emissions at all sites were measured after waste water treatment, therefore recognizing the effective TOC emission into the environment. The same is true for the key waste-water indicators of nitrogen and phosphorous emissions, included in the report for the first time this year; the values here were also measured following waste water treatment. The emission of phosphorous into waste water is at a low level.

The volume of total waste of all nine Siegfried sites amounted to 50400 tons, more than three times the previous year's volume. Two reasons are responsible for this: one the one hand, the inclusion of the new sites in the reporting and, on the other hand, higher production utilization at the old sites. The larger part of the amount of waste consists of waste solvents and liquid waste, which represents more than 90% of total waste. In 2016, more than 15000 tons of solvents from both inside and outside the company were regenerated. Without this measure, the volume of waste would have been considerably larger. A total of 15700 tons of waste (including solvents) was recycled. The second largest waste item after solvents and liquid waste is normal household waste. The volume of household waste in the year under review amounted to 1029 tons. The amount at the old sites decreased slightly compared to the previous year.

Outlook

Siegfried's goal is to reduce both water consumption and waste generation. Concerning the relatively high water consumption in Zofingen, a survey is currently being carried out with the aim of ascertaining how water consumption can be reduced. The survey addresses the high consumption of water used for cooling purposes. Concerning the reduction of waste, it is planned to start with the main share of waste, namely waste solvents. The aim is to increase the share of waste solvents entering regeneration. Corresponding potential is available at several production sites.

The discharge of APIs into the water resources is an issue at the Zofingen and the Evionnaz sites. An active charcoal filter is in the planning phase in order to improve the elimination capacity of the waste water treatment plant. Waste water treatment is an issue also for the Minden site where nitrate reduction is to be improved by means of an alternative mode of operation, i.e. downstream and upstream denitrification. Last but not least, the waste treatment plant in Nantong requires improvement to cope with the elimination of methylene chloride and salts.

The "pump & treat" installations serving decontamination at the Evionnaz site and located on the south and the north side of the site will be put into service in 2017.

In Pennsville, USA, consumption of water is to be reduced by means of an alternative mode of operating exhaust air scrubbers. The scrubbers of the three largest production plants were equipped with controllers.

3.3 Safety and Health

Efficient and safe chemical processes are two core elements of process development. As a rule, all chemical processes undergo extensive environmental and safety tests during their development. Our internal safety labs employ well-trained specialists and state-of-the-art measuring instruments for the physical and thermal testing of materials. Flammability, the risk of explosion, as well as the response in normal operation and in the event of emergency are tested and analyzed. The findings are summarized in a safety and environmental report and assessed in a subsequent process risk analysis.

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

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

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

Focus on Workplace Safety

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

In 2014 and 2015, close to 200 employees completed a training course related to the STOP™ program at the Hameln, Malta, Pennsville, Irvine and Zofingen sites. This training sharpens their safety awareness and enables the employees to engage in structured dialogs concerning these issues with colleagues and coworkers. These dialogs are the actual core of the initiative, because safety is a recurring topic. The objective is not only to monitor and identify deficiencies. It also means recognizing and commending proper conduct and safe conditions.

STOP Initiative

In 2016, several hundred such dialogs took place at the participating facilities. An analysis of the feedback on STOP activities at the Zofingen site resulted in the following statistic for 2016. The vast majority of employees are aware of safety at work.

Similar to the STOP initiative, a company-wide campaign for workplace safety was launched in 2014 with five cardinal rules describing significant risks. These cardinal rules will be globally applicable starting in 2017. Compliance is mandatory for all employees. Failure to comply will result in disciplinary action.

Following are the five cardinal rules, applicable worldwide:

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

A key topic at the Zofingen site during the past year was a safety initiative to prevent accidents caused by tripping and falling. The preventative measures implemented included, in addition to a poster campaign, that all handrails at the facility were provided with "use handrails" stickers and approximately 600 employees were trained in the "tripping path" module of the Swiss National Accident Insurance Fund. The participants learned, in theory and in practice, how to prevent accidents caused by tripping and falling.

Number of reported safety dialogs	**330**
Individual observations	9 000
Observations rated "safe"	8 600
Observations rated "unsafe"	400

The company's employees were offered "continuing safety education" regarding various topics, including:

- Refresher course, including test, for the internal transportation personnel on "Shunting maneuvers on connecting tracks"
- Training for all production employees regarding the topic of "Mix-up of chemicals"
- Training for all production employees regarding the topic of "How to handle a hose"
- Safety training for construction site personnel, including test

Audits

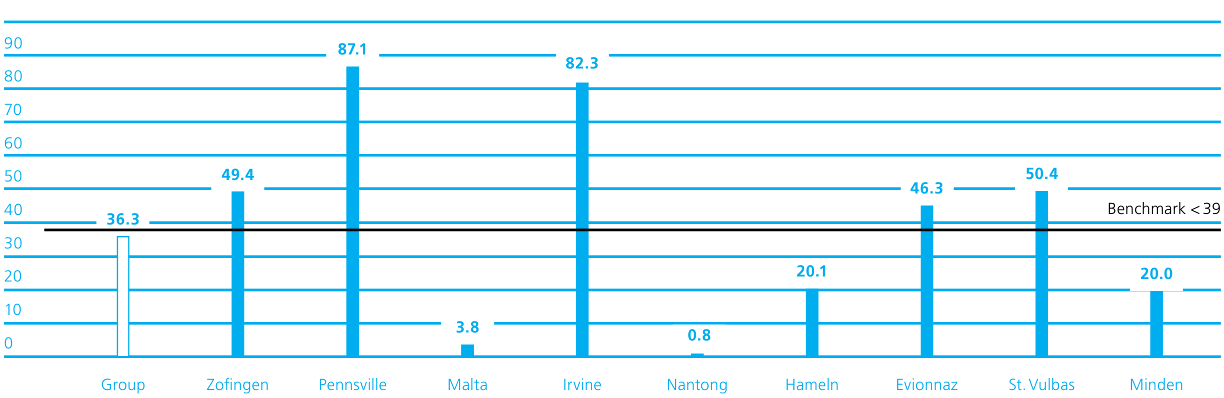
Regulatory agencies, insurance companies and customers have inspected all facilities during the reporting year. Inspectors and customers confirmed that Siegfried has an effective and integrated risk and environmental management system in place. In an industry comparison, the risk assessment of the HDI Global insurance company indicated no irregularities. The plants in Zofingen, Malta, Irvine, Pennsville and Hameln meet the requirements for operational safety and fire protection and are listed among the top 10% in the insurance company's risk benchmark rating. In 2016, the plants in Minden, Evionnaz and St. Vulbas have also successfully passed the first inspection by HDI Global. They were found to have a good safety system and adequate fire protection.

The system of internal audits and safety inspection tours has been well established in the various plants, in some cases for years. In Zofingen, 70 internal safety and environmental audits were performed. The audit teams submitted over 150 suggestions for improvement, more than 80% of which have been successfully implemented in 2016.

Events, Workplace Accidents and Absences

As part of Siegfried's integral risk assessment, in addition to the accident ratios, events with property damage or environmental impact have been shown under the parameter "accident points" since 2013. These accident points are determined as follows: 1 point for each day lost, 1 point per accident/occupational illness without days lost, 0.5 points per event with significant property damage or environmental impact. This allows Siegfried to be more transparent in its reports of events. The chart below is a cross-comparison between the plants in 2016. Four production sites were below the target rate of less than 39 accident points per 1 million hours worked. Five sites were unable to meet the target. One accident (with several weeks of lost working hours) occurred in each of the two plants located in the USA, Pennsville and Irvine, and in the Swiss facilities of Evionnaz and Zofingen.

Number of accident points per million working hour



The 2016 accident statistics for each plant are as follows:

Events / 1000 FTE	2016	2015	2014	2013	2012
Zofingen	24	16	18	17	38
Pennsville	11	34	37	13	47
Malta	7	14	30	7	14
Irvine	8	0	8	16	n. a.
Nantong	0	5	1	0	n. a.
Hameln	17	24	n.a.	n. a.	n. a.
Minden	16	n. a.			
Evionnaz	11	n. a.			
St. Vulbas	13	n. a.			
Group	15	15	14	12	38
Accident points / 1 million working hour					
Zofingen	49	24	60	58	90
Pennsville	87	159	42	17	31
Malta	4	42	70	4	8
Irvine	82	0	22	96	50
Nantong	1	5	2	0	n. a.
Hameln	20	65	n. a.	n. a.	n. a.
Minden	20	n. a.			
Evionnaz	46	n. a.			
St. Vulbas	50	n. a.			
Group	36	40	33	38	70

The facilities in Minden, Evionnaz and St. Vulbas, which joined the Siegfried group in the fall of 2015, have been included in the accident analysis for the first time.

Compared to 2015, the majority of the production sites successfully reduced the number of workplace accidents (with and without days lost). No accidents occurred in the Nantong facility in China. Compared to the prior year, the plants in Pennsville and Malta were able to reduce the number of workplace accidents by approximately two thirds to 12 and 8, respectively, per one thousand employees. One step that was taken to improve the situation was the "Continuous Improvement" program, which was launched in 2016.

The trend in Zofingen was reversed. The number of workplace accidents rose by approximately 50% to 25 per one thousand employees. In the last few years, accidents had levelled off at around 17. With this, Siegfried Zofingen is slightly above the average of the Swiss chemical and pharmaceutical industry (2015: 20 accidents). Half of the workplace accidents did not result in any absences. The employees involved were treated at the company's First Aid Station and were able to return to their workplace.

At group level, Siegfried was unable to further reduce the number of workplace accidents. Overall, most of the accidents, such as tripping, falling, lifting heavy loads and cutting merely resulted in minor injuries, causing no or short absences of only a few days. Four workplace accidents were reported with long-term absences (several weeks).

Ensuring Health

Siegfried maintains process technologies with different containment systems for the development and production of highly active substances and ready-to-use drugs. Closed substance handling protects the employees from excessive exposure. Protective clothing with respirators is additionally available where necessary to provide safety at any time. To minimize the risks of contamination Siegfried has installed decontamination stations, airlocks and designated changing areas. Compliance with the workplace thresholds and the effectiveness of the technical installations are monitored and periodically tested by SHE.

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

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

In 2016, the annual flu shot was offered again in the form of a vaccination campaign at no cost to the employees. As part of the medical care, around 200 employees in Zofingen were examined by the Institute for Occupational Medicine (ifa Baden) and assessed for their capacity to work. These medical check-ups were performed at the direction of Suva (Swiss National Accident Insurance Fund).

0

accidents occurred in the Nantong facility. The majority of the production sites successfully reduced the number of workplace accidents.

200

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

Ideas and suggested improvements submitted by employees are evaluated and implemented, if possible.

Company sports clubs are available to promote fitness.

Outlook

Siegfried continues to make the reduction of events and workplace accidents a priority by rolling out the STOP™ safety program worldwide and intensifying the campaigns for safety awareness.

To quickly reintegrate injured employees in the work process, alternative workplaces should be provided to optimize the internal health management as such. Such a step is expected to be taken in 2017.

All facilities are encouraged to continue sharing information involving issues of safety, health and environmental protection. The purpose is to further harmonize health and safety standards and implement the global SHE philosophy across all sites.

4. Employees

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

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

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

Siegfried's global human resources strategy builds on the following core topics with regard to developing and exploiting Siegfried's potential as a company:

- The organization's high ability to learn and perform
- Excellent leadership
- Attractive and responsible employer

Efficient Organization

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

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

Siegfried plans to redesign its leadership training within the coming 24 months and to align training contents to reflect the redefined leadership capabilities.

Professional training at Siegfried plays a significant role in order to meet the future need for skilled employees. With a focus on careers in the areas of laboratory assistant, chemical technician and pharmaceutical technician, Siegfried is currently offering 84 young people attractive training possibilities as well as interesting career opportunities to university graduates within the parameters of trainee programs and internships.

Site	Number of apprentices	in % of number of employees
Zofingen	33	6.50 %
Evionnaz	12	3.58 %
Hameln	18	4.16 %
Minden	14	4.12 %
Malta	1	0.82 %
St. Vulbas	6	4.89 %

Excellent Leadership

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

In the year under review, the Siegfried leadership model was introduced at all sites. The leadership model is derived from our corporate strategy and corporate values (please find an illustration of Siegfried's Leadership Model on page 67). Within the parameters of a one-day workshop for local management teams at each site, CEO Rudolf Hanko explained and clarified the significance of values and of leadership in terms of successful strategy implementation. The local management teams autonomously defined priorities and measures concerning the introduction of values and leadership principles down to the employee level.

In order to ensure that employees and managers speak the same language and apply uniform criteria when assessing professional activities in all situations, leadership principles and values were integrated in many instruments of employee development. These instruments are used in the application and selection process (Assessment Center) in order to assess the performance of an employee or manager and to plan their development within the parameters of the performance management process.

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

Attractive and Responsible Employer

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

In addition to providing attractive employment conditions, which along with a market-oriented base salary include performance-related variable compensation elements and participation plans (also see detailed information in Remuneration Report, page 42ff), Siegfried attaches great importance to maintaining a balance between work, family and leisure time allowing our employees to be and remain efficient, creative and successful. Important elements in achieving this goal are given by the possibility to designing worktime flexibly, working part-time and taking unpaid leave.

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

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

Siegfried looks back on a long tradition of solution-driven cooperation with employees in the spirit of social partnership. Siegfried respects the right of each employee to join an employee representation or a union. We cultivate direct, transparent and constructive dialog with all representatives of employees and unions. Joint information meetings and discussions concerning Siegfried's business development and measures concerning workplace and co-determination aspects are carried out at regular intervals. Collective labor agreements are available to substantial groups of employees in Switzerland, Germany, France, Malta, China and the US.

At all sites we unconditionally respect the local statutory regulations concerning labor and the international standards of the International Labor Organization (ILO). At all sites Siegfried remunerates its employees above the legal minimum wage and does not employ minors.

Employment Development

As at December 31, 2016, the Siegfried Group employed approximately 2315 FTE employees worldwide. The number grew slightly compared to the previous year owing to an acquisition-related increase of positions at headquarters. At its headquarters in Zofingen, Siegfried employed 505.9 FTE (previous year: 484.6), corresponding to a 21.86% share of total number of employees. Group-wide, the total fluctuation rate in the year under review amounted to 9.2%, a slight increase compared to the previous year. The fluctuation rate includes all terminations of contract (either on the part of the employee or the employer) as well as retirees and deaths.

Siegfried employs about 255 external staff worldwide. They are employed mainly in production and production-related fields such as laboratory and warehouse to cover for production peaks and long-term absences. All of Siegfried's partners relating to external employees maintain legal regulations and pay minimum wages, at least.

2315

employees (FTE) worked for Siegfried at the end of 2016. The number of employees slightly increased compared to 2015.

255

external staff was employed at Siegfried worldwide, mainly in production and production-related fields such as laboratory and warehouse to cover for production peaks and long-term absences.

Sustainability Figures

Employees as per December 31[1]		2016		2015	
Zofingen, Switzerland	FTE/total	505.9		484.6	
Evionnaz, Switzerland	FTE/total	335.1		321.4	
St. Vulbas, France	FTE/total	122.8		131.7	
Pennsville, USA	FTE/total	159.0		177.6	
Irvine, USA	FTE/total	102.0		87.0	
Malta	FTE/total	122.0		123.0	
Nantong, China	FTE/total	212.0		163.0	
Hameln, Germany	FTE/total	416.2		416.4	
Minden, Germany	FTE/total	339.6		333.5	
Group	FTE/total	2 314.6		2 238.2	
Full-time employees	FTE/%	2 175.0	94.0%	2 103.0	94.0%
Part-time employees	FTE/%	139.6	6.0%	135.2	6.0%
Apprentices/number of apprentices of the total stock	Number/%	84.0	3.6%	86.0	3.8%
Temporary employees (Group)[2]	FTE/total	272.5			
Female employees (Group)[2]	FTE/%	61.9	22.7%		
Male employees (Group)[2]	FTE/%	210.6	77.3%		
Diversity[3]					
Female employees	FTE/%	600.5	25.9%	575.2	25.7%
Male employees	FTE/%	1 714.1	74.1%	1 663.0	74.3%
Women upper management	FTE/%	4.0	0.2%	4.0	0.2%
Male upper management	FTE/%	41.0	1.8%	38.0	1.7%
Women middle and lower management	FTE/%	77.6	3.4%	87.7	3.9%
Male middle and lower management[4]	FTE/%	292.5	12.6%	285.4	12.8%
Women full-time employment[2]	FTE/%	480	79.9%		
Women part-time employment[2]	FTE/%	120.5	20.1%		
Male full-time employment[2]	FTE/%	1 695.0	98.9%		
Male part-time employment[2]	FTE/%	19.2	1.1%		
Demographics					
Employees up to age 30	FTE/%	352.0	15.2%	341.3	15.2%
Employees between age 31 and age 50	FTE/%	1 316.0	56.9%	1 265.7	56.5%
Employees above age 50	FTE/%	646.6	27.9%	631.3	28.2%
Average age of employees	Age	42.1		41.8	
Attention rate					
Exits/attrition rate female employees	FTE/%	46.2	2.0%	51.8	2.3%
Exits/attrition rate male employees	FTE/%	166.5	7.2%	145.4	6.5%
Total turnover rate	FTE/%	212.7	9.2%	197.2	8.8%
Lost working days due to accidents and sickness[5]					
Lost working days due to work-related illness	No. of days	0.0	0.0%	0.0	0.0%
Lost working days due to illness[6]	No. of days	21 262.1	94.2%	10 286.4	91.5%
Lost working days work-related accidents/quota of days lost	No. of days/%	361.5	1.6%	178.0	1.6%
Lost working days not work-related accidents/quota of days lost[5,6]	No. of days/%	949.5	4.2%	775.1	6.9%
Total lost working days	No. of days	22 573.1	100.0%	11 239.5	100.0%
Lost working days per FTE	Ø day per FTE/%	9.8	4.4%	5.0	2.3%

1 Source: Siegfried ERP system (SAP HR), as per 31.12.
2 First-time data collection in 2016
3 Only related to permanent employees
4 Deviation from 2015 data due to correction of data after implemention of Siegfried grading structure in Evionnaz, Minden and St. Vulbas
5 2015 lost working days without Evionnaz, Minden and St. Vulbas due to different definitions
6 Hameln and Minden: Not work related accidents/quota of days lost are included in section "lost working days due to illness"

Outlook

We plan to assess the effectiveness of our human resources activities and the performance of our managers within the coming 24 months by means of an employee survey. Owing to restructuring of the Siegfried Group and the large number of activities connected with acquisitions in the past years, Siegfried chose to forego a comprehensive survey as there is no stable basis for comparison. The integration phase following the last acquisition was supported by a team from the University of Zurich, measuring the satisfaction of the affected employees by means of several polls. The results will become available in the year under review.

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

5. About this report

Scope

This report concerns the 2016 financial year which ends on December 31, 2016. Siegfried's annual report is published once a year, last in March 2016, in both a printed version and a PDF version on our website. The next report is scheduled to appear in the spring of 2018.

External validation

The Sustainability Report has not been validated by an independent external party. The process of sustainability reporting was accompanied and supported by BSD Consulting, a consulting firm specializing in sustainability management.

Issues

The topics addressed in the Sustainability Report were developed in a multi-stage process in materiality workshops conducted in 2016 and documented in a materiality matrix (see page 68). Issues dealt with previously were augmented by two new topics, namely Sustainability in the Supply Chain and Corruption and Anticompetitive Conduct. All documents are based on structural standards issued by the Global Reporting Initiative (GRI).

GRI Sustainability Report Standards (SRS)

Siegfried chose a gradual implementation of the GRI requiremments and, consequently, 2016 sustainability reporting was implemented on the basis of GRI's new SRS guideline (GRI SRS). It is planned to publish the 2017 report in complete conformity with GRI guidelines including the GRI Content Index.

Key Figures

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

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

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

Financial Report

This chapter
can be downloaded
as a PDF at
report.siegfried.ch

Financial Commentary 2016

Strong Sales Growth

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

EBITDA before Integration Costs exceeds the CHF 100 Million Mark

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

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

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

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

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

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

Significant Increase in the Operating Cash Flow

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

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

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

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

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

Michael Hüsler
CFO

Consolidated Balance Sheet

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

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

Consolidated Income Statement

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

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

Consolidated Statement of Cash Flows

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

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

Consolidated Statement of Changes in Equity

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

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

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

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

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

Notes to the Consolidated Financial Statements

General Information

Financial Statements

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

Information about the Group

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

Method and Scope of Consolidation

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

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

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

Changes in Accounting Principles

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

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

Change in reporting of interest effects on foreign pension liabilities

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

Accounting Principles

Business Combinations

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

Segment Reporting

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

Foreign Currency Translation

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

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

Balance Sheet

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

Income Statement

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

Property, Plant and Equipment

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

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

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

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

Leasing

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

Intangible Assets

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

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

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

Impairment of Non-Financial Non-Current Assets

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

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

Securities / Financial Assets

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

Inventories

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

Trade Receivables

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

Other Receivables

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

Accrued Income and Prepaid Expenses

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

Cash

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

Equity / Treasury Shares

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

Equity / Hybrid Bonds

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

Financial Liabilities

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

Other Liabilities

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

Accrued Expenses

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

Provisions

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

Employee Benefits

Pension Plans

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

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

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

Share-Based Payments

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

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

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

Profit Sharing/Bonus Plans

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

Taxes

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

Net Sales

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

Cost of Goods Sold

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

Other Operating Income

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

Research and Development

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

Dividends

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

Government Grants

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

Transactions with Related Parties

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

Risk Management

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

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

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

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

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

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

Financial Risk Management

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

Market Risks

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

Foreign Exchange Risks

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

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

Interest Rate Risks

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

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

Market Value Risks

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

Liquidity Risks

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

Credit Risks / Counterparty Risks

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

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

Capital Risk

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

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

Derivative Financial Instruments

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

Estimates, Assumptions and Accounting Judgments

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

Impairment Test of Non-Financial Non-Current Assets

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

Deferred Tax Assets

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

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

Environmental Provisions

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

1. Scope of Consolidation

The consolidation includes the following companies:

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

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

2. Property, Plant and Equipment

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

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

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

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

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

3. Intangible Assets

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

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

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

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

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

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

4. Investment in Associated Companies and Joint Ventures

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

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

5. Financial and Other Non-Current Assets

Financial assets are classified in the following categories:

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

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

6. Income Taxes

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

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

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

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

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

The following unrecognized tax losses are available to Siegfried:

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

7. Inventories

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

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

8. Trade Receivables

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

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

9. Derivative Financial Instruments

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

Derivative Financial Instruments

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

10. Treasury Shares

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

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

11. Share Capital – Hybrid Capital – Conditional Capital

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

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

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

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

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

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

12. Financial Liabilities

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

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

13. Provisions

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

Environmental provisions

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

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

Other provisions

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

14. Other Non-Current Liabilities

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

15. Accruals

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

16. Other Current Liabilities

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

17. Employee Benefits and Personnel Expenses

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

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

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

Pension liabilities and economic benefits are as follows:

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

The employer contribution reserves are as follows:

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

18. Share-Based Payments

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

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

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

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

19. Other Operating Income

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

20. Financial Result

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

21. Earnings per Share

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

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

22. Distribution per Share

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

23. Commitments and Contingencies

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

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

24. Maturity of Rental and Lease Liabilities

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

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

25. Transactions with Related Parties

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

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

26. Net Sales

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

Net Sales to Third Parties

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

Net Sales by Product Group

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

Geographic Information[1]

The most important markets are Western Europe and the USA.

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

[1] by location of customers.

27. Segment Reporting

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

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

28. Events after the Reporting Period

There are no significant events after the balance sheet date.

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report on the audit of the Consolidated Financial Statements

Opinion

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

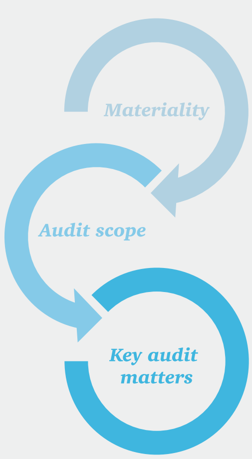
In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER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

Basis for opinion

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

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

Our audit approach



Overall materiality: CHF 1 600 000

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

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

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

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

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

Materiality

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

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

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

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

Audit scope

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

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

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

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

Impairment testing of deferred tax assets arising from tax loss carryforwards

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

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Gerd Tritschler Audit expert Auditor in charge	Andreas Kägi Audit expert

Basel, 10 March 2017

pwc

Financial Statements Siegfried Holding AG

Balance Sheet of Siegfried Holding AG

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

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

Income Statement of Siegfried Holding AG

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

Notes to the Financial Statements of Siegfried Holding AG

General Information

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

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

Guarantees and Securities

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

Balance Sheet

Investments

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

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

Non-Current Assets

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

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

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

The intangible assets include capitalized software.

Current Assets

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

Shareholders' Equity

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

Conditional Capital

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

Treasury Shares

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

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

Liabilities

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

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

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

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

Income Statement

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

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

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

Loans to Members of Executive Bodies

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

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

Share Ownership of the Board of Directors and the Executive Management

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

December 31, 2016

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

December 31, 2015

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

Major Shareholders

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

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

Events after the Reporting Period

There are no significant events after the balance sheet date.

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

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

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

Report of the Statutory Auditor

to the General Meeting of Siegfried Holding AG, Zofingen

Report on the audit of the Financial Statements

Opinion

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

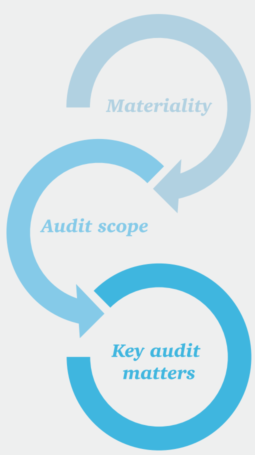
In our opinion, the accompanying Financial Statements as at December 31, 2016, comply with Swiss law and the company's Articles of Incorporation.

Basis for opinion

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

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

Our audit approach



Overall materiality: CHF 550 000

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

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

— Valuation of investments in Group companies

Materiality

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

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

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

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

Audit scope

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

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

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

Valuation of investments in Group companies

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

Responsibilities of the Board of Directors for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Gerd Tritschler Audit expert Auditor in charge	Andreas Kägi Audit expert

Basel, 10 March 2017

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Information for Investors

Siegfried – a Rewarding Investment

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

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

Critical Size for the Global Market

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

Above-Average Growth and Increase in Value

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

Convincing Yield for Shareholders

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

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

Leading Global CMO[1]

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

Comprehensive Technology Portfolio

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

Worldwide Production Network

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

Sustainable Growth Platform

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

216.9

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

1 Contract Manufacturing Organization

Highly-Qualified Employees

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

A Promising Future

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

Key Figures Overview 2012–2016

Consolidated Figures

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

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

Stock Market Data

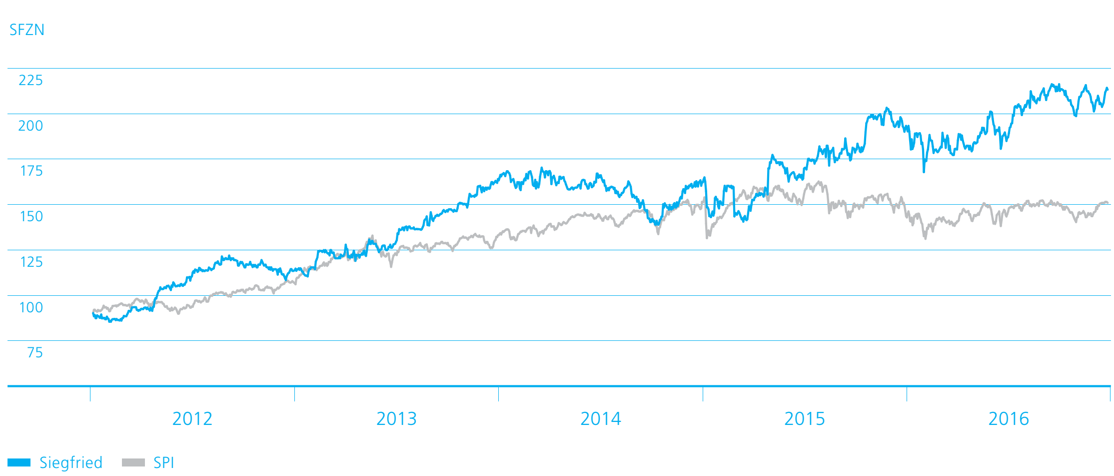
			2016	2015	2014	2013	2012
Registered shares nom. CHF 2			4 166 591	4 150 000	4 150 000	3 800 000	3 800 000
Share capital		CHF million	8.3	8.3	8.3	7.6	7.6
Gross dividend per registered share		CHF	2.00	1.80	1.50	1.50	1.20
Total dividend paid		CHF	7 764 948[1]	6 997 641	5 984 997	5 930 592	4 283 693
Market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

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

Siegfried shares are traded on the SIX Swiss stock exchange:

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

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



Shareholder Base

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

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

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

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

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

About this Annual Report

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

Scope

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

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

Governance

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

Principles of accounting

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

External validation

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

Cautionary Statement regarding Forward-Looking Statements

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

Siegfried Worldwide

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

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Untere Bruehlstrasse 4
4800 Zofingen
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33 Industrial Park Road
Pennsville, NJ 08070
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Siegfried Malta Ltd
HHF070 Hal Far Industrial Estate
Hal Far BBG 3000
Malta

Siegfried Irvine
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Irvine, CA 92618
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Nantong City, Jiangsu Province
P.R.C (post code: 226017)
China

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Langes Feld 13
31789 Hameln
Germany

Siegfried PharmaChemikalien Minden GmbH
Karlstrasse 15
32423 Minden
Germany

Siegfried Evionnaz SA
Route du Simplon 1,36
1902 Evionnaz
Switzerland

Siegfried St. Vulbas SAS
Parc Industriel de la Plaine de l'Ain
530 Allée de la Luye
01150 Saint Vulbas
France

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 2017, the company will inform about the course of business as follows:

March 14, 2017
Publication of results for the 2016 business year at a media and analyst conference in Zurich

April 20, 2017
Annual General Meeting of Shareholders
10 a.m., Stadtsaal Zofingen

August 23, 2017
Publication of 2017 half-year financial results

Publisher's Note

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

Editor:
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Concept, layout, realization:
Hej GmbH, Zurich

Photography:
Raffael Waldner, Bern
Porträts: Markus Senn, Horgen

Lithography:
Roger Bahcic, Zürich

Publishing system:
ns.publish by Multimedia Solutions AG

Realization and Prepress:
Neidhart + Schön AG, Zurich

Print:
SuterKeller Druck AG, Zofingen

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Best wishes
Mit besten Grüssen
Avec nos meilleures salutations
商祺

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 (FTE) 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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www.siegfried.ch