

Half-Year Report 2018
of the EMS Group



EMS-CHEMIE HOLDING AG
Domat/Ems Switzerland

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The EMS Group in the first half of 2018

The EMS Group, with its companies combined in the EMS-CHEMIE HOLDING AG, is globally active in the business areas **High Performance Polymers** and **Specialty Chemicals**. In the first half of 2018, **net sales** increased by 12.5% and **net operating income (EBIT)** by 11.5% compared to previous year.

Consolidated **net sales** rose to CHF 1,199 million (1,066) which represents a growth of 12.5% compared to previous year.

As expected, the global economy showed overall positive development, although certain signs of saturation could be noticed. EMS achieved pleasing growth with high-margin specialities in all regions. Business in the European market developed in a particularly positive way.

Net operating income (EBIT) increased to CHF 312 million (280), an increase of 11.5% above previous year. The operational cash flow (EBITDA) rose by 10.9% to reach CHF 339 million. (306). The EBIT margin reached 26.1% (26.3%), the EBITDA margin 28.3% (28.7%). New business with specialty products had a positive effect on result development. Continuing supply shortages caused raw material prices to increase further and made customer sales price increases unavoidable.

Net financial income amounted to CHF 0 Mio. (-5).

Net income for the first half of 2018 was CHF 260 million (229) which is 13.4% above the previous year.

Equity increased to CHF 1,821 million (31.12.2017: CHF 1,550 million). The **equity ratio** is 77.5% (31.12.2017: 73.8%).

Comments on the individual business areas in the first half of 2018

In the main business area **High Performance Polymers**, EMS was able to successfully continue growth with specialities. New business in Europe developed very pleasingly. New application developments providing customers with cost and weight reductions, successfully led to increased new business and stronger supply positions.


The secondary business area **Specialty Chemicals** developed as expected. New business was generated here as well.

Forecast 2018

For 2018, EMS is expecting positive worldwide economic development, although certain signs of saturation can be noticed. Political conflicts between major powers and new trade restrictions are unsettling global customers. The tense situation in the raw material markets may continue further.

EMS is confident with regard to development of its own business. The successful strategy of global growth with specialty products in the area of High Performance Polymers will be continued. Global market positions will be further strengthened with innovative products and solutions. EMS is preparing for an upcoming slowing of the economy with efficiency programmes.

For 2018, EMS continues to expect net sales and net operating income (EBIT) slightly above the previous year.



Magdalena Martullo
CEO and Vice-Chairman of the
Board of Directors

Financial report of the EMS Group for the first half of 2018

In million CHF	Notes	2018 Jan-Jun	2017 Jan-Jun
Consolidated income statement (condensed)			
Net sales revenue		1'199	1'066
Change		+12.5%	
Currency effect		+4.5%	
Earnings before interest, tax, depreciation and amortisation (EBITDA) ¹⁾		339	306
Change		+10.9%	
In % of net sales revenue		28.3%	28.7%
Net operating income (EBIT) ¹⁾		312	280
Change		+11.5%	
In % of net sales revenue		26.1%	26.3%
Net financial income	1	(0)	(5)
Net income before taxes		312	275
Change		+13.4%	
Income taxes		(53)	(46)
Net income		260	229
Change		+13.4%	
In % of net sales revenue		21.7%	21.5%
<i>Of which attributable to:</i>			
<i>Shareholders of EMS-CHEMIE HOLDING AG</i>		258	225
<i>Non-controlling interests</i>		2	4
Earnings per share (in CHF)			
Basic / Diluted ²⁾		11.01	9.62

¹⁾ The segment information by business area can be found on page 13.

²⁾ The average weighted number of outstanding registered shares for the calculation is 23'389'028 shares on 30.06.2018 (30.06.2017: 23'383'720 shares). There is no earnings dilution.

In million CHF	Notes	2018 Jan-Jun	2017 Jan-Jun
Consolidated statement of comprehensive income (condensed)			
Net income recognised in income statement		260	229
Actuarial gains/(losses) from defined benefit pension plans, net of tax	2	<u>4</u>	<u>2</u>
Items that will not be reclassified to income statement, net of tax		4	2
Net changes from cash flow hedges, net of tax	3	10	2
Currency translation differences	4	(3)	(2)
Items that are or may be reclassified to profit or loss		8	(0)
Other comprehensive income		12	1
Comprehensive income		272	230
<i>Of which attributable to:</i>			
<i>Shareholders of EMS-CHEMIE HOLDING AG</i>		270	227
<i>Non-controlling interests</i>		2	3
Consolidated statement of cash flows (condensed)			
Cash flow from operating activities	A	225	148
Cash flow from investing activities	B	(20)	(160)
<i>Paid withholding taxes</i>	5	(0)	(133)
<i>Purchase of intangible assets and property, plant and equipment</i>		(20)	(26)
<i>Interest received</i>		(0)	0
<i>Disposal of interest-bearing assets</i>		0	0
Cash flow from financing activities	C	(10)	0
<i>Repayment of interest-bearing liabilities</i>		(8)	(4)
<i>Borrowing of interest-bearing liabilities</i>		0	0
<i>Dividends paid to non-controlling interests</i>		(1)	(1)
<i>Sale of treasury shares</i>	6	0	5
Increase/(decrease) in cash and cash equivalents	(A+B+C)	196	(12)
Cash and cash equivalents at 1.1.		272	385
Translation difference on cash and cash equivalents		(1)	(2)
Cash and cash equivalents at 30.6.		467	371
Additional key figures			
Cash flow ^{*)}		287	255
In % of net sales revenue		23.9%	23.9%
Investments		20	26
In % of cash flow		7.0%	10.2%
Number of employees at 30.06.		2'949	2'909

*) Cash flow = net income plus write-downs on intangible assets, property, plant and equipment plus value adjustments to securities.

In million CHF	Notes	30.06.2018	31.12.2017 *)
Consolidated balance sheet (condensed)			
Non-current assets		631	640
Intangible assets		68	73
Property, plant and equipment		537	541
Investments		0	0
Other non-current assets		7	7
Derivative financial instruments		2	1
Deferred income tax assets		16	18
Current assets		1'720	1'460
Inventories		401	389
Trade receivables		384	332
Income tax assets		9	7
Other current assets	*) 5	426	427
Derivative and other financial assets	*)	33	34
Cash and cash equivalents		467	272
Total assets		2'350	2'100
Equity		1'821	1'550
Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG		1'795	1'525
Share capital	7	0	0
Retained earnings and reserves		1'537	1'043
Net income		258	482
Equity, attributable to non-controlling interests		27	25
Liabilities		529	550
Non-current liabilities		155	159
Derivative financial instruments		0	3
Bank loans		0	0
Other non-current liabilities		0	0
Deferred income tax liabilities		89	89
Pension liabilities		44	45
Provisions		21	22
Current liabilities		374	391
Derivative financial instruments		13	21
Bank loans		5	12
Trade payables		122	132
Income tax liabilities	8	64	69
Provisions		2	1
Other current liabilities		168	156
Total equity and liabilities		2'350	2'100
Balance sheet equity ratio		77.5%	73.8%

*) See consolidated accounting principles on page 9 regarding the restated presentation.

Consolidated statement of changes in equity (condensed)									
In million CHF	Share capital	Capital reserves (share premium)	Treasury shares	Retained earnings	Hedging reserves	Translation differences	Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG	Equity, attributable to non-controlling interests	Equity
At 31.12.2016	0	24	(4)	1'496	(5)	(106)	1'405	23	1'428
Net changes from cash flow hedges ³⁾					2		2		2
Actuarial losses from defined benefit plans ²⁾				2			2		2
Currency translation differences ⁴⁾						(1)	(1)	(1)	(2)
Other comprehensive income	0	0	0	2	2	(1)	2	(1)	1
Net profit recognized in income statement				225			225	4	229
Comprehensive income	0	0	0	227	2	(1)	227	3	230
Transactions with treasury shares ⁶⁾		1	4				5		5
Dividends paid				0			0	(1)	(1)
At 30.06.2017	0	26	0	1'722	(4)	(107)	1'637	25	1'663
At 31.12.2017	0	26	0	1'595	(19)	(77)	1'525	25	1'550
Net changes from cash flow hedges ³⁾					10		10		10
Actuarial gains from defined benefit plans ²⁾				4			4		4
Currency translation differences ⁴⁾						(3)	(3)	0	(3)
Other comprehensive income	0	0	0	4	10	(3)	12	0	12
Net profit recognized in income statement				258			258	2	260
Comprehensive income	0	0	0	262	10	(3)	270	2	272
Transactions with treasury shares ⁶⁾		0	0				0		0
Dividends paid				0			0	(1)	(1)
At 30.06.2018	0	26	0	1'857	(8)	(80)	1'795	27	1'821

Consolidated accounting principles

General information on the consolidated financial statements

These consolidated financial statements (termed “the interim consolidated financial statements” in the following) cover the non-audited half-year results for EMS-CHEMIE HOLDING AG domiciled in Switzerland and for its subsidiaries, for the reporting period ending on June 30, 2018. The interim consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”, published by the International Accounting Standards Board (IASB), and should be read in conjunction with the consolidated financial statements compiled for the financial year ending on December 31, 2017, as they comprise an update of previously published information.

Preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the time the accounts are drawn up. If at some time in the future, these estimates and assumptions, made by management to the best of its belief at the time the accounts were drawn up, should deviate from the actual circumstances, the original estimates and assumptions will be adjusted accordingly in the reporting period in which the circumstances changed.

The EMS Group pursues activities in business areas in which sales are not subject to significant seasonal fluctuations over the business year. Income taxes are calculated on the basis of a best estimate of the weighted average tax rate as anticipated for the year as a whole.

The accounting principles applied to the interim consolidated financial statements correspond to the principles of the consolidated annual financial statements, with the exception of the changes described below.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

Changes to the consolidated accounting principles

On January 1, 2018 the EMS Group adopted following new IFRS standards:

IFRS 9	Financial Instruments
IFRS 15	Revenues from Contracts with Customers

IFRS 9 – Financial Instruments

The standard deals with the classification, recognition and measurement (including impairment) of financial instruments, the impairment of financial assets, including trade and lease receivables and also introduces a new hedge accounting model. Allowances for doubtful trade receivables are not determined anymore on the basis of historical losses, however on the basis of future expected credit losses. The Group does not anticipate any material changes on the allowances for doubtful receivables due to the new measurement. The adoption of IFRS 9 did not have a material impact on the equity as of January 1, 2018.

In relation with the adoption of IFRS 9 and to improve the transparency of the presentation, receivables are now presented separately from other current assets. In addition "derivative financial instruments" will be grouped together with "other short-term financial assets" under "derivative and other financial assets". The restatement will be applied retrospectively in accordance with IAS 8. The effects on the relevant items in the balance sheet are presented below:

Balance sheet as of December 31, 2017

In million CHF	Reported	Re-classification	Restated
Other receivables	458	-458	
Derivative financial instruments	2	-2	
Other current assets		+427	427
Derivative and other financial assets		+34	34
Total current assets	1'460	-	1'460

IFRS 15 – Revenues from Contracts with Customers

The EMS Group adopted the new standard as of January 1, 2018. The new standard contains a new set of principles on when and how to recognise and measure revenue as well as new requirements related to presentation. The core principle in that framework is that revenue should be recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration to which should be received in exchange for those goods or services. Revenue is recognised according to IFRS 15 when the control over the goods or services is transferred to the customer. This can be at a point in time or over time. At EMS Group revenue is generally recognized at the point in time when the control over the goods is transferred to the customer. The performance obligations primarily consist of the delivery of manufactured products (polymers) to the agreed specifications depending on contractual terms.

The adoption of the new standard has no effect on the revenue recognition of the Group for the net sales revenue reported in 2017 and therefore no restatement is necessary.

The Group is currently assessing the potential impacts of the following new standard that will be mandatory as from January 1, 2019.

IFRS 16 "Leases". The Group will implement the new standard effective January 1, 2019. The new standard requires that operating leases are capitalized on the balance sheet. There is no differentiation for lessees between financing and operating leases anymore. The Group is currently analysing the potential impact on the consolidated financial statements. The application of the new standard will result in part of what is currently reported as operating lease costs being recorded as interest expenses. Given the leases involved and the prevailing low interest rate environment the EMS Group does not currently expect this effect to be material.

Notes

Financial instruments

The difference between the carrying value less allowances of financial assets and liabilities is not material. Financial assets and liabilities that are measured at fair value, are insignificant, which is why no further disclosure is made.

1 Net financial income

The net financial income comprises the interest result of CHF 0 million (0), the foreign exchange result of CHF 0 million (-4).

2 Actuarial gains/(losses) from defined benefit pensions plans, net of tax

In the first half of 2018, the discount rate for the defined benefit obligation increased from 0.65% to 0.80%. In the prior year period the discount rate increased from 0.60% to 0.72%.

3 Net changes from cash flow hedges, after taxes

In the first half of 2018, the deferred unrealized losses of the open foreign exchange hedges in the equity amounted to CHF -8 million (-4). In the first half of 2018, CHF 8 million realized losses were transferred to the income statement (4).

4 Currency translation differences

For the first half of 2018, the change from IAS 21 "Net investment in a foreign operation" amounts to CHF -4 million (6), the change in the currency translation adjustment resulting from the translation of subsidiaries with a different functional currency amounts to CHF 1 million (-8).

5 Cash flow from investing activities / other current assets

As of June 30, 2018, other current assets include a FTA withholding tax receivable of CHF 366 million (31.12.2017: CHF 366 million).

6 Treasury shares

In the first half of 2018, no treasury shares were held. In the first half of 2017 7'751 treasury shares were sold at an average market price of CHF 652.38.

7 Share capital

The share capital is CHF 0.234 million per 30.06.2018 (31.12.2017: CHF 0.234 million).

8 Deferred income tax liabilities

In the first half of 2018, CHF 59 million tax was paid (66).

9 Subsequent events

On August 11, 2018 the Annual General Meeting approved payment of a dividend of CHF 18.50 gross per dividend bearing registered share. On August 16, 2018, total dividends amounting to CHF 433 million were paid. The Board of Directors approved the interim consolidated financial statements on August 26, 2018.

No subsequent events occurred requiring an adjustment of the book values of Group assets and liabilities or needing to be published here.

Segment information by business area

In million CHF	High Performance Polymers		Specialty Chemicals		Total	
	2018 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun	2017 Jan-Jun	2018 Jan-Jun	2017 Jan-Jun
Net sales revenue	1'048	931	151	135	1'199	1'066
Change	+12.6%		+11.9%		+12.5%	
Currency effect	+4.6%		+3.4%		+4.5%	
EBITDA	297	268	42	38	339	306
In % of net sales revenue	28.4%	28.8%	27.8%	28.1%	28.3%	28.7%
Depreciation, amortisation and impairments	24	22	3	3	27	26
Net operating income (EBIT)	274	246	39	34	312	280
In % of net sales revenue	26.1%	26.4%	25.6%	25.5%	26.1%	26.3%
Net financial income					(0)	(5)
Net income before taxes					312	275
Income taxes					(53)	(46)
Net income					260	229

Net sales revenue, operating profit before depreciation and amortisation and operating profit between the business areas are not material.

Segment assets and segment liabilities show no significant changes.

Segment information by geographical region

In million CHF	Total net sales revenue (customers)			
	2018		2017	
	Jan-Jun	in %	Jan-Jun	in %
Europe	696	58.0%	586	55.0%
Asia	300	25.0%	283	26.5%
NAFTA	175	14.6%	170	15.9%
Others	29	2.4%	27	2.5%
Total net sales revenue	1'199	100.0%	1'066	100.0%

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