

Half-Year Report 2019
of the EMS Group



EMS-CHEMIE HOLDING AG
Domat/Ems Switzerland

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The EMS Group in the first half of 2019

In the first half of 2019, the EMS Group, with its companies combined in the EMS-CHEMIE HOLDING AG and globally active in the business areas **High Performance Polymers** and **Specialty Chemicals**, achieved **net sales** amounting to CHF 1,154 million (1,199), and a **net operating income (EBIT)** of CHF 316 million (312).

Following a progressive slowing of the global economy during the second half of 2018, it weakened significantly in the first half of this year. Unresolved and repeated trade conflicts between major powers caused considerable uncertainty among consumers and companies. Subsequently, a significant worsening of the global consumer and investment mood became particularly apparent in China and Europe. Inventory stocks were also reduced. The automotive industry in particular, as well as other industrial sectors showed a substantial decline. As a result of this uncertainty, the Swiss Franc, as "Safe Haven", became stronger.

Thanks to successful realization of planned innovative new business, EMS was able to absorb the drop in sales caused by the weaker economy. New high-performing, innovative applications were developed and rapidly launched in global markets. In America, sales and development were expanded and market positions strengthened.

EMS prepared particularly early and consistently for a slowing of the economy. Already at the beginning of 2018, comprehensive efficiency programmes were drawn up and continually implemented. Along with various on-going development projects, EMS launched a fast-track programme for new business.

With its strong specialty products and due to early and decisive actions, EMS was able to achieve a **net operating income (EBIT)** of CHF 316 million (312) as a new record value. The operational cash flow (EBITDA) rose in comparison to the previous year by 1.6% to reach CHF 345 million (339). The EBIT margin increased to 27.4% (26.1%), the EBITDA margin to 29.9% (28.3%).

Net financial income amounted to CHF -1 Mio. (0).

Net income for the first half of 2019 was CHF 266 million (260) which is 2.5% above the previous year.

Equity increased to CHF 1,871 million (31.12.2018: CHF 1,625 million). The **equity ratio** is 75.6% (31.12.2018: 75.3%).

Forecast 2019

For 2019, EMS continues to expect the global economy to be further restrained. The rapid and significant slow-down reduces consumer confidence and restricts financial freedom of action for companies. Instability of the financial markets cannot be excluded.

EMS will monitor further developments in the market and is prepared to take action quickly in future as well. Thanks to business with innovative, high-margin specialty business, continual expansion of global market positions, high liquidity and a strong equity ratio, EMS sees itself in good shape to realise opportunities independently, quickly and flexibly.

The successful strategy of worldwide growth with specialty products in the main area of High Performance Polymers will be continued. The high demand from customers for cost and CO₂ savings as well as for market differentiation will be matched well by EMS with its profound experience in metal replacement and its solution-oriented research and development capabilities.

From a cost point of view, EMS will improve efficiency with new manufacturing processes and more productive plants with substantial energy-savings.

For 2019 EMS continues to expect net operating income (EBIT) at least on the previous year's level.



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

Financial report of the EMS Group for the first half of 2019

In million CHF	Notes	2019 Jan-Jun	2018 Jan-Jun
Consolidated income statement (condensed)			
Net sales revenue from contracts with customers		1'154	1'199
Change		-3.8%	
In local currencies		-1.7%	
Earnings before interest, tax, depreciation and amortisation (EBITDA) ^{1) 2)}		345	339
Change		+1.6%	
In % of net sales revenue		29.9%	28.3%
Net operating income (EBIT) ^{1) 2)}		316	312
Change		+1.0%	
In % of net sales revenue		27.4%	26.1%
Net financial income	1	(1)	(0)
Net income before taxes		315	312
Change		+0.7%	
Income taxes		(48)	(53)
Net income		266	260
Change		+2.5%	
In % of net sales revenue		23.1%	21.7%
<i>Of which attributable to:</i>			
<i>Shareholders of EMS-CHEMIE HOLDING AG</i>		265	258
<i>Non-controlling interests</i>		2	2
Earnings per share (in CHF)			
Basic / Diluted ³⁾		11.32	11.01

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

²⁾ The effect of the first-time adoption of IFRS 16 – leases is reported on page 10 (Changes to the consolidated accounting principles).

³⁾ The average weighted number of outstanding registered shares for the calculation is 23'389'028 shares on 30.06.2019 (30.06.2018: 23'389'028 shares). There is no earnings dilution.

In million CHF	Notes	2019 Jan-Jun	2018 Jan-Jun
Consolidated statement of comprehensive income (condensed)			
Net income recognised in income statement		266	260
Actuarial gains/(losses) from defined benefit pension plans, net of tax	2	<u>(17)</u>	<u>4</u>
Items that will not be reclassified to income statement, net of tax		(17)	<u>4</u>
Net changes from cash flow hedges, net of tax	3	3	10
Currency translation differences	4	<u>(6)</u>	<u>(3)</u>
Items that are or may be reclassified to profit or loss		(2)	<u>8</u>
Other comprehensive income		(19)	<u>12</u>
Comprehensive income		247	<u>272</u>
<i>Of which attributable to:</i>			
Shareholders of EMS-CHEMIE HOLDING AG		246	270
Non-controlling interests		2	2
Consolidated statement of cash flows (condensed)			
Cash flow from operating activities ^{*)}	A	255	225
Cash flow from investing activities ^{*)}	B	(185)	(20)
<i>Paid withholding taxes</i>	5	(153)	(0)
<i>Purchase of intangible assets and property, plant and equipment</i>		(33)	(20)
<i>Interest received</i>		0	(0)
<i>Disposal of interest-bearing assets</i>		(0)	0
Cash flow from financing activities	C	5	(10)
<i>Repayment of interest-bearing liabilities</i>		0	(8)
<i>Borrowing of interest-bearing liabilities</i>		6	0
<i>Dividends paid to non-controlling interests</i>		(1)	(1)
Increase/(decrease) in cash and cash equivalents	(A+B+C)	75	196
Cash and cash equivalents at 1.1.		287	272
Translation difference on cash and cash equivalents		<u>(1)</u>	<u>(1)</u>
Cash and cash equivalents at 30.6.		361	467
Additional key figures			
Cash flow ^{**)}		295	287
In % of net sales revenue		25.6%	23.9%
Investments		33	20
In % of cash flow		11.0%	7.0%
Number of employees at 30.06.		2'855	2'949

*) see Consolidated accounting principles page 10 about the impact of the adoption IFRS 16 - leases.

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

In million CHF	Notes	30.06.2019	31.12.2018
Consolidated balance sheet (condensed)			
Non-current assets		676	640
Intangible assets		68	64
Property, plant and equipment ^{*)}		564	548
Other non-current assets		20	6
Derivative financial instruments		5	7
Deferred income tax assets		19	15
Current assets		1'799	1'518
Inventories		458	444
Trade receivables		350	341
Income tax assets		6	7
Other current assets	5	612	432
Derivative and other financial assets		12	7
Cash and cash equivalents		361	287
Total assets		2'475	2'158
Equity		1'891	1'645
Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG		1'871	1'625
Share capital	6	0	0
Retained earnings and reserves		1'606	1'105
Net income		265	520
Equity, attributable to non-controlling interests		20	20
Liabilities		585	513
Non-current liabilities		180	148
Derivative financial instruments		0	0
Financial liabilities ^{*)}	7	13	0
Other non-current liabilities		0	0
Deferred income tax liabilities		81	83
Pension liabilities		64	43
Provisions		21	22
Current liabilities		405	365
Derivative financial instruments		1	1
Financial liabilities ^{*)}	7	15	5
Trade payables		136	129
Income tax liabilities	8	80	80
Provisions		2	1
Other current liabilities		170	148
Total equity and liabilities		2'475	2'158
Balance sheet equity ratio ^{**)}		75.6%	75.3%

*) see Consolidated accounting principles page 10 about the impact of the adoption IFRS 16 - leases.

***) Excluding non-controlling interests.

Consolidated statement of changes in equity (condensed)									
In million CHF	Share capital	Capital reserves (share premium)	Treasury shares	Retained earnings	Hedging reserves	Trans-lation differences	Equity, attributable to shareholders of EMS-CHEMIE HOLDING AG	Equity, attributable to non-controlling interests	Equity
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 losses 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
At 31.12.2018	0	26	0	1'687	10	(98)	1'625	20	1'645
Net changes from cash flow hedges ³⁾					3		3		3
Actuarial gains from defined benefit plans ²⁾				(17)			(17)		(17)
Currency translation differences ⁴⁾						(5)	(5)	0	(5)
Other comprehensive income	0	0	0	(17)	3	(5)	(19)	0	(19)
Net profit recognized in income statement				265			265	2	266
Comprehensive income	0	0	0	248	3	(5)	246	2	248
Transactions with treasury shares ⁶⁾		0	0				0		0
Dividends paid				0			0	(1)	(1)
At 30.06.2019	0	26	0	1'935	13	(103)	1'871	20	1'891

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, 2019. 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, 2018, 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, 2019 the EMS Group adopted following new IFRS standards:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments

IFRS 16 - Leases: The Group has implemented the new standard effective January 1, 2019. The new standard requires that operating leases are capitalized on the balance sheet.

In accordance with the transitional provisions the "modified retrospective method" was applied and comparative information was not restated. For the initial recognition the Group used different practical expedients permitted by IFRS 16: It has elected to measure the right-of-use assets at an amount equal to the lease liabilities. Since EMS recognized the right-of-use asset at the amount equal to the lease liabilities, there was no impact on the retained earnings.

In accordance with IFRS 16 the EMS Group has decided to not recognize short-term up to 12 months leases and leases of low-value assets on the balance sheet. The borrowing rates used for the measurement of the lease liabilities have been defined based on a base rate and a country-specific risk premium. The lease liabilities are presented as non-current and current financial liabilities and the right-of-use of leased assets as a component of property, plant and equipment in the balance sheet. Cash payments for the principal portion of lease payments as well as for the interest portion have been classified as cash flow used in financing activities, with the exception of the interest portion paid and payments for short-term and low-value leases, which are part of the cash flow from operating activities.

As of January 1, 2019 the EMS Group has recognized CHF 18.2 million as right-of-use of leased assets and as lease liabilities. In the reporting period, depreciation of right-of-use of leased assets of CHF 1.9 million and interest expenses of CHF 0.1 million were recognized while other operating expenses were reduced by CHF 1.9 million. The Group's consolidated statement of cash flow was impacted by a shift from cash flow from operating activities to cash flow used in financing activities of CHF 1.8 million.

The following table shows the reconciliation from IAS 17 to IFRS 16 as of January 1, 2019:

in MCHF	Transition IAS 17 to IFRS 16
Disclosed commitments for operating leases at 31 December 2018	18.9
Discounting effect	-0.3
Short-term leases recognised as expense	-0.1
Low-value leases recognised as expenses	0.0
Estimation effect from renewal options	-0.3
Recognized lease liabilities as of January 1, 2019	18.2

IFRIC 23 - Uncertainty over Income Tax Treatments

The standard clarifies the accounting for uncertainties in income taxes. The first-time adoption in 2019 did not impact the consolidated financial statements.

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 (0).

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

In the first half of 2019, the discount rate for the defined benefit obligation decreased from 0.80% to 0.30%. In the prior year period the discount rate increased from 0.65% to 0.80%.

3 Net changes from cash flow hedges, after taxes

In the first half of 2019, the deferred unrealized losses of the open foreign exchange hedges in the equity amounted to CHF 13 million (-8). In the first half of 2019, CHF 3 million realized losses were transferred to the income statement (-8).

4 Currency translation differences

For the first half of 2019, the change from IAS 21 "Net investment in a foreign operation" amounts to CHF -5 million (-4), the change in the currency translation adjustment resulting from the translation of subsidiaries with a different functional currency amounts to CHF 0 million (1).

5 Cash flow from investing activities / other current assets

As of June 30, 2019, other current assets include a FTA withholding tax receivable of CHF 520 million (31.12.2018: CHF 366 million).

6 Share capital

The share capital is CHF 0.234 million per 30.06.2019 (31.12.2018: CHF 0.234 million).

7 Financial liabilities

As of June 30, 2019, financial liabilities include non-current lease liabilities of CHF 13 million and current lease liabilities of CHF 4 million.

8 Deferred income tax liabilities

In the first half of 2019, CHF 49 million tax was paid (59).

9 Subsequent events

On August 10, 2019 the Annual General Meeting approved payment of a dividend of CHF 19.75 gross per dividend bearing registered share. On August 15, 2019, total dividends amounting to CHF 462 million were paid. The Board of Directors approved the interim consolidated financial statements on August 25, 2019.

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	
	2019 Jan-Jun	2018 Jan-Jun	2019 Jan-Jun	2018 Jan-Jun	2019 Jan-Jun	2018 Jan-Jun
Net sales revenue	1'016	1'048	138	151	1'154	1'199
Change	-3.1%		-8.4%		-3.8%	
In local currencies	-1.0%		-6.4%		-1.7%	
EBITDA	306	297	39	42	345	339
In % of net sales revenue	30.1%	28.4%	28.4%	27.8%	29.9%	28.3%
Depreciation, amortisation and impairments	26	24	3	3	29	27
Net operating income (EBIT)	280	274	36	39	316	312
In % of net sales revenue	27.5%	26.1%	26.1%	25.6%	27.4%	26.1%
Net financial income					(1)	(0)
Net income before taxes					315	312
Income taxes					(48)	(53)
Net income					266	260

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)			
	2019		2018	
	Jan-Jun	in %	Jan-Jun	in %
Europe	655	56.7%	696	58.0%
Asia	281	24.3%	300	25.0%
America	207	17.9%	192	16.0%
Others	12	1.0%	12	1.0%
Total net sales revenue	1'154	100.0%	1'199	100.0%

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