Financial Report

In the Financial Year 2012 Siegfried again increased its sales. All other key operating figures also show an upward trend. Thanks to the realization of several strategic projects, the basis for continuing robust development has been laid.

Contents

Key figures

	2012	2011	Change CHF (LC)
Net sales (million CHF)	367.8	328.1	12.1% (10.0%)
Gross profit (million CHF)	82.6	66.6	23.9%
Gross profit margin (%)	22.5%	20.3%	
EBITDA (million CHF)	45.4	36.5	24.1%
EBITDA margin (%)	12.3%	11.1%	
EBIT (operating income) (million CHF)	17.9	12.5	43.5%
EBIT margin (%)	4.9%	3.8%	
Net profit (million CHF)	20.9	9.7	115.5%
Net profit-margin in percentage	5.7%	3.0%	
Earnings per share (EPS)	5.76	2.64	118.4%
Cash flow from operating activities before change in current assets (million CHF)	70.4	40.9	72.3%
Investment in property, plant and equipment and intangible assets (million CHF)	22.8	13.5	69.7%

	December 31, 2012	December 31, 2011	Change
Shareholder's equity (million CHF)	316.4	353.5	–10.5%
Total assets (million CHF)	477.4	430.6	10.8%
Equity as a percentage of total assets	66.3%	82.1%	
Employees (number)	832	715	16.4%

Financial Commentary 2012

Again double digit sales growth
In the financial year 2012 Siegfried generated sales of CHF 367.8 million. Compared with the prior year this represents a growth of 12.1% in CHF or 10.0% in local currencies. The sales growth is the result of an above average sales increase in Drug Products of 91.0% in CHF or 92.9% in local currencies to CHF 97.5 million. In this area Siegfried benefited from the launch of new products. On the other hand sales of Drug Substance fell slightly by 2.4% in CHF or 5.3% in local currencies to CHF 270.3 million. This reduction is, however, due exclusively to the heavy fall in price of a raw material used for one of the main products, which is fully passed on to the customer and therefore has no impact to the result. The price reduction of this product had a two digit million CHF impact on sales, so that without this effect Drug Substance would also have experienced sales growth. At 31 May 2012 Alliance Medical Products, Inc. (AMP) was acquired. The growth corrected for the acquisition amounted to 8.7%. The sales of AMP are included in Drug Products.

Accounting converted to Swiss GAAP FER
With effect from 1 January 2012 Siegfried has converted its accounting to Swiss GAAP FER. Swiss GAAP FER supersedes International Financial Reporting Standards (IFRS), which were formerly applied. With the change Siegfried has chosen a standard with comparable informative value consistent with the size of the company and which causes less complexity and costs. The figures for the first half of 2012 were already drawn up on the basis of Swiss GAAP FER.

The conversion of the accounting from IFRS to Swiss GAAP FER results mainly in adjustments to the accounting for and capitalisation of development costs, to the calculation of pension liabilities and in the event of business combinations. Otherwise the former accounting principles are applied. Details about the conversion and the restatement of the prior year amounts are disclosed in the Notes to the Consolidated Financial Statements.

Significant disproportionate improvement in operating results
In the past financial year Siegfried achieved EBITDA of CHF 45.4 million on an EBITDA margin of 12.3%. The EBITDA improved over the prior year by CHF 8.8 million or 24.1%. The EBITDA margin increased by one percentage point. Also at the EBIT level a significant improvement was achieved. The EBIT increased by 43.5% or CHF 5.4 million to CHF 17.9 million with an EBIT margin of 4.9%.

Following the difficult exchange rate situation in the prior year, it relaxed in 2012 with the fixing of a minimum Euro rate by the Swiss National Bank. However, Siegfried still follows the strategy of achieving as high a natural hedge as possible. Over both currencies, US dollar and Euro, this amounted in 2012 to about 85%, so that with the considerably more stable currency environment in 2012 the negative impact on the operating result was only CHF 0.7 million. In the event of exchange rate fluctuations Siegfried continues to be well positioned.

The cost of goods sold amounted in 2012 to CHF 285.2 million or 77.5% of sales. This resulted in a gross profit of CHF 82.6 million compared with CHF 66.6 million in the prior year, an increase of CHF 15.9 million or 23.9%. The gross profit margin was further improved by more than two percentage points to 22.5%. Both marketing and sales costs (increase from

CHF 8.1 million to CHF 8.4 million) and research and development costs (increase from CHF 22.3 million to CHF 23.1 million) rose only slightly and mainly caused by currency movements. The larger part of the increase in administrative costs is the result of the additional charge from the Equity Ownership Plan (EOP) and costs of strategy implementation. Including these items, the administration costs amounted to CHF 41.0 million. Other operating income, which includes royalty income and gains on the sale of fixed assets and land, amounted to CHF 6.8 million. The result from associated companies contributed CHF 1.2 million to the operating result (prior year CHF 0.9 million).

Significant growth in net profit

Based on its greatly improved operating results, Siegfried was able in 2012 to more than double its net profit to CHF 20.9 million and a net profit margin of 5.7% (prior year CHF 9.7 million and a net profit margin of 3.0%). It must, however, be borne in mind that the net profit includes a positive tax result of CHF 5.7 million, which is largely the result of partially recognizing tax loss carry forwards, principally in the USA. The financial result in 2012 was CHF –2.8 million. It was therefore also possible to more than double the earnings per share (EPS) to CHF 5.76 per share.

Strong operating cash flow

The operating cash flow before changes in net working capital increased in 2012 by CHF 29.6 million or 72.3% to CHF 70.4 million. The increase that is disproportionate to the growth in the operating result derives from the fact that a number of major expense captions are not cash effective. The operating cash flow including changes in working capital also improved significantly in 2012 by 85.1% to CHF 54.3 million.

The cash flow for investing activities includes firstly investments in tangible and intangible assets of CHF 22.8 million. On the other hand there was an inflow of CHF 7.0 million from the sale of fixed assets in connection with the exchange of land with the town of Zofingen and the Städtische Werke. Further worth mentioning is the acquisition of Alliance Medical Products (AMP) in the amount of CHF 57.8 million. Including other items the cash flow for investing activities aggregated CHF 71.1 million.

The cash flow from financing activities totalling CHF 38.5 million includes the financing tranche from the syndicated loan for the acquisition of AMP of CHF 48.6 million. Also incurred were the dividend payment of CHF 3.6 million, the net increase in treasury shares of CHF 4.9 million and interest and bank charges paid of CHF 1.6 million.

As a result of the strong operating cash flow and the partial debt financing of the acquisition of AMP the cash balance at the end of December 2012 increased to CHF 73.3 million. This represents a net cash position of CHF 25.8 million. Including treasury shares this amounts to CHF 46.2 million. Together with the credit lines still available of approximately CHF 100 million (CHF 150 million less the financing tranche AMP) Siegfried has at its disposal the necessary financial flexibility for further strategic projects.

Michael Hüsler
CFO

Consolidated Balance Sheet

In 1000 CHF (as of December 31)	Notes*	2012	2011[1]
Assets			
Non-current assets			
Property, plant and equipment	2	188 398	184 616
Intangible assets	3	7 060	8 294
Investments in associated companies and joint ventures	4	7 012	6 771
Financial and other non-current assets	5	217	1 495
Employer contribution reserves	16	7 073	6 934
Deferred tax assets		8 780	3 091
Total non-current assets		**218 540**	**211 201**
Current assets			
Inventories	7	121 704	111 279
Trade receivables	8	55 854	47 627
Other current assets		3 012	2 454
Accrued income		4 232	3 435
Current income taxes		137	7
Securities	5	–	2 076
Derivative financial instruments	9	566	–
Cash		73 310	52 566
Total current assets		**258 815**	**219 444**
Total assets		**477 355**	**430 645**
Liabilities and equity			
Equity			
Share capital		7 600	7 600
Treasury shares	10	–20 442	–17 191
Capital reserves		65 762	69 409
Retained earnings		263 431	293 662
Total equity		**316 351**	**353 480**
Non-current liabilities			
Non-current financial liabilities	12	38 010	–
Non-current provisions	13	11 705	9 020
Deferred tax liabilities		3 191	2 742
Other non-current liabilities	14	23 327	5 656
Non-current pension liabilities		164	1 412
Total non-current liabilities		**76 397**	**18 830**
Current liabilities			
Trade payables		40 521	36 663
Other current liabilities		4 972	4 693
Accrued expenses	15	16 110	13 271
Other current financial liabilities	12	9 502	–
Derivative financial instruments	9	275	135
Current pension liabilities		680	174
Current provisions	13	12 268	3 060
Current income tax liabilities		279	339
Total current liabilities		**84 607**	**58 335**
Total liabilities		**161 004**	**77 165**
Total liabilities and equity		**477 355**	**430 645**

* The notes on pages 122 – 151 are an integral part of the Group Financial Statements.
[1] 2011 restated (change from IFRS to Swiss GAAP FER)

Consolidated Income Statement

In 1000 CHF (for the years ended December 31)	Notes*	2012	2011[1]
Net sales	25	367 754	328 095
Cost of goods sold		–285 187	–261 472
Gross profit		**82 567**	**66 623**
Marketing and sales costs		–8 479	–8 126
Research and development costs		–23 122	–22 292
Administration and general overhead costs[2]		–41 035	–28 112
Other operating income	19	6 816	3 522
Share of results of associated companies		1 176	876
Operating result		**17 923**	**12 491**
Financial income		242	1 805
Financial expenses		–2 255	–2 699
Exchange rate differences		–743	–1 085
Profit before income taxes		**15 167**	**10 512**
Income taxes	6	5 701	–829
Net profit		**20 868**	**9 683**
Earnings per share (CHF)	20	5.76	2.64
Diluted earnings per share (CHF)	20	5.55	2.57

* The notes on pages 122 – 151 are an integral part of the Group Financial Statements.
[1] 2011 restated (change from IFRS to Swiss GAAP FER)
[2] The increase in administrative costs mainly relates to the additional charge from the Equity Ownership Plan (EOP) and costs of strategy implementation.

Consolidated statement of cash flows

In 1000 CHF (for the years ended December 31)	Notes*	2012	2011[1]
Net profit		**20 868**	**9 683**
Adjustments:			
Depreciation and impairment of PP&E and Intangibles	2,3	27 443	24 052
Change in provisions		9 258	–564
Other non-cash items[2]		583	–1 215
Share-based payments	18	21 351	8 394
Exchange rate differences		743	1 085
Financial income		–242	–1 805
Financial expenses		2 255	2 699
Income taxes	6	–5 701	829
Share of results of associated companies		–1 177	–876
Net result on disposal of property, plant and equipment	19	–4 958	–1 419
Cash flow from operating activities before change in net current assets		**70 423**	**40 863**
Change in trade receivables		–6 488	–7 739
Change in other current assets		10	10 055
Change in inventories		–10 312	–4 666
Change in trade payables		–481	–5 673
Change in other current liabilities		2 154	–2 654
Payments out of provisions		–649	–515
Income taxes paid		–335	–318
Cash flow from operating activities		**54 322**	**29 353**
Purchase of property, plant and equipment		–22 058	–12 800
Proceeds from disposal of property, plant and equipment		6 950	11 797
Purchase of intangible assets	3	–767	–650
Acquisition of group companies	18	–57 775	–
Sale of available-for-sale financial assets	5	2 081	1 356
Interest received		69	64
Dividend received		351	394
Cash flow from investing activities		**–71 149**	**161**
Increase in financial liabilities	12	48 591	–
Redemption of financial liabilities		–	–4 126
Change in other non-current liabilities		90	–1 170
Purchase/disposal of treasury shares, net	10	–4 873	–8 423
Interest paid and bank charges		–1 628	–1 338
		–3 647	–
Cash flow from financing activities		**38 533**	**–15 057**
Net change in cash		**21 706**	**14 457**
Cash at the beginning of the year		52 566	41 176
Net effect of exchange rate changes on cash		–962	–3 067
Cash at the end of the year		73 310	52 566

* The notes on pages 122–151 are an integral part of the Group Financial Statements.
[1] 2011 restated (change from IFRS to Swiss GAAP FER)
[2] Other non-cash items mainly include significant releases of revenue accruals out of projects and certain postings from employee benefits.

Consolidated statement of changes in equity

In 1000 CHF	Share capital	Treasury shares	Capital surplus and legal reserves	Value fluctuations of financial instruments*	Accumulated profits*	Cumulative translation adjustments*	Total equity[1]
As of January 1, 2011	**5 859**	**–10 985**	**90 222**	**0**	**324 842**	**–61 920**	**348 018**
Net profit	–	–	–	–	9 683	–	9 683
Changes in financial instruments				121			121
Employee share plan	–	–	–	–	8 394	–	8 394
Change in treasury shares	–	–6 206	–	–	–2 217	–	–8 422
Capital increase	1 741	–	–1 741	–	–	–	–
Capital increase transaction costs	–	–	–122	–	–	–	–122
Change in consolidation scope associated companies	–	–	–	–	–422	–	–422
Currency translation differences						–3 769	–3 769
Changes in capital		–	–18 950	–	18 950	–	–0
As of December 31, 2011	**7 600**	**–17 191**	**69 409**	**121**	**359 230**	**–65 689**	**353 480**
Net profit	–	–	–	–	20 868	–	20 868
Dividends	–	–	–3 647	–	–	–	–3 647
Changes in financial instruments				–141			–141
Employee share plan	–	–	–	–	19 056	–	19 056
Change in treasury shares	–	–3 251	–	–	674	–	–2 578
Goodwill allocation	–	–	–	–	–67 846	–	–67 846
Change in consolidation scope associated companies	–	–	–	–	–515	–	–515
Currency translation differences	–	–	–	–	–	–2 325	–2 325
As of December 31, 2012	**7 600**	**–20 442**	**65 762**	**–20**	**331 466**	**–68 014**	**316 351**

* In the Consolidated Balance Sheet these items are disclosed as retained earnings.
[1] 2011 restated (change from IFRS to Swiss GAAP FER)

The share capital of Siegfried Holding AG amounts to CHF 7.6 million (2011: CHF 7.6 million). It is divided into 3 800 000 registered shares par value CHF 2 (2011: 3 800 000 registered shares).

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

Notes to the Consolidated Financial Statements

General information

Financial Statements

The financial reporting of the Siegfried Group complies with Swiss GAAP FER and the provisions of Swiss law. The Consolidated Financial Statements are based on historical costs, except for the revaluation of specific financial assets and liabilities, such as derivative financial instruments. As described in the following policies, they are valued at fair value. The Financial Statements are prepared on the 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 February 27, 2013 for presentation to the General Meeting held on April 18, 2013.

Information about the Group

The Siegfried Group is a worldwide pharmaceutical supplier with production sites in Switzerland, Malta and the USA. Under contract to the pharmaceutical industry Siegfried develops manufacturing processes for active pharmaceutical ingredients and their intermediates and produces them (Drug Substance). The Siegfried Group also produces finished pharmaceutical products (Drug Products). Siegfried Holding AG's shares (head office in Zofingen AG) are traded 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 by 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%. An exception is the investment in SCI Pharmatech Inc., which is accounted for by the equity method although the share of voting rights held is 15.6% (2011: 15.6%), because, as a result of the representation in the Board of Directors, the opportunity for significant influence exists. Investments in joint ventures are also accounted for by 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

Conversion of the accounting from IFRS to Swiss GAAP FER
Until now the Consolidated Financial Statements have been drawn up in accordance with International Financial Reporting Standards (IFRS). At January 1, 2012 the Siegfried Group converted its accounting from IFRS (International Financial Reporting Standards) to Swiss GAAP FER. For comparison purposes the prior year amounts and classification have been restated to Swiss GAAP FER. The conversion from IFRS to Swiss GAAP FER had the following significant effects on the accounting principles applied by the Siegfried Group:

Intangible assets
Intangible assets include capitalised development costs. Under IFRS capitalization was permitted, if the capitalization criteria were fulfilled. In this respect Swiss GAAP FER offers an option, as to whether development costs are capitalized or immediately expensed. Under Swiss GAAP FER Siegfried recognizes development costs directly in the Income Statement and refrains from capitalizing them.

Pension costs
Under IFRS the Siegfried companies' pension plans in Switzerland and Germany were considered to be defined benefit plans, which required an annual actuarial valuation of the commitment or of an asset according to an internationally recognized method. By contrast Swiss GAAP FER foresees that the accounts of the Swiss pension plans drawn up in accordance with Swiss GAAP FER 26 may be used for the calculation of the pension cost and of the surplus or deficit. The other pension plans are all defined contribution plans, so that Swiss GAAP FER valuations do not have to be prepared for them.

Business combinations
Under IFRS Goodwill is regarded as an intangible asset with an indefinite useful life and is subject to an annual impairment test. On the other hand Swiss GAAP FER requires that Goodwill is capitalized and as a rule amortized on a straight line basis over a period of five to maximum twenty years or that on acquisition date the Goodwill is charged directly against equity. Under Swiss GAAP FER Siegfried charges the Goodwill on acquisitions against equity. Costs directly related to the acquisition charged by third parties are capitalized and via Goodwill charged against equity.

Investments in associated companies and Joint Ventures
Under IFRS the results of associated companies were reported in the non-operating result. Siegfried reports its share of the results of associated companies and Joint Ventures under Swiss GAAP FER separately in the operating result.

Share-based payments
Siegfried retains under Swiss GAAP FER its previous method of recording share-based payments (refer to accounting policies on page 129 and to note 17 of the Consolidated Financial Statements). Any effect of the conversion of the accounting on achieving the EOP targets is neutralized.

The conversion from IFRS to Swiss GAAP FER resulted in the following effects on the Balance Sheet and the Results of operations:

In 1000 CHF	Balance Sheet January 1, 2011 IFRS	Adjustments	Balance Sheet January 1, 2011 Swiss GAAP FER
Intangible assets	37 367	–27 609	9 755
Pension (net)	4 109	32	4 141
Deferred taxes (net)	–1 134	1 882	755
Equity	373 713	–25 695	348 018

In 1000 CHF	Balance Sheet December 31, 2011 IFRS	Adjustments	Balance Sheet December 31, 2011 Swiss GAAP FER
Intangible assets	34 552	–26 258	8 294
Pension (net)	–5 144	10 492	5 348
Deferred taxes (net)	790	–441	349
Equity	369 689	–16 207	353 480

In 1000 CHF	Result December 31, 2011 IFRS	Adjustments	Result December 31, 2011 Swiss GAAP FER
EBITDA	41 049	–4 505	36 544
EBIT (operating income)	11 614	877	12 491
Net profit	9 599	84	9 683

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.

Segment reporting

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

Foreign currency translation

The positions of the individual Balance Sheets 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 CNY. 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	2012	2011
1 USD	0.914	0.942
1 EUR	1.207	1.218

Income Statement

Average rates	2012	2011
1 USD	0.938	0.887
1 EUR	1.205	1.234

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	10–45 years
Machinery and equipment	8–15 years
Vehicles	8–10 years
IT-Hardware	3–5 years

If parts of a fixed asset have different useful lives, they are recognized and depreciated as separate assets. The useful lives of assets are evaluated at least once a year at the reporting date and, if necessary, amended. Property, plant and equipment are excluded from the Balance Sheet on 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 or 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, client base and software. 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 legal and economic lives:

Licenses, patents	The shorter of economic or legal life, as a rule 5–20 years
Trademarks	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.

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 and finished 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.

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 caption "Marketing and sales". When a trade receivable becomes uncollectible, it is derecognized against the allowance for doubtful accounts.

Other receivables

This caption includes advance payments for goods or services and other receivables. They are recorded at net realizable value.

Accrued income

Accrued income is valued at nominal value and contains payments made for the following financial year.

Cash

Cash consists of cash, balances held in postal and 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 (net after taxes), is recorded against equity, until the shares are redeemed, issued again, 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.

Financial liabilities

All financial liabilities are recorded under current or non-current financial liabilities. They are valued at amortized cost, and any difference between the amount received (less transaction costs) and the settlement amount is recognized in the Income Statement over the period of the loan, using the effective interest method. 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 like AHV, IV etc.

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 Group are insured in the "Pensionskasse Siegfried", a legally autonomous foundation. The pension fund is financed by employee and employer contributions. In addition there is an affiliation to a collective foundation and a voluntary fund and pension commitments that are financed directly by the employer. Abroad there are separate pension schemes.

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 in personnel costs.

Other non-current employee benefits

Other non-current employee benefits represent amounts to be provided by Group companies under deferred compensation arrangements mandated by certain jurisdictions or regulations. In the Siegfried Group, these are mainly benefits related to long service awards. The commitments calculated by the expert are included in Other non-current liabilities. Benefit costs are recognized on an accrual basis in the Income Statement.

Share-based payments

In May 2010, the Siegfried Group launched a new Equity Ownership Plan (EOP) for the members of the Board of Directors and the Management. This plan foresees that the members of the Board of Directors and the Management will receive part of their remuneration and bonus in shares and, if they achieve defined targets in 2014 and 2016, leverage shares will be allocated. For the plan satisfied with equity instruments, the expense of the remuneration granted is recognized by an increase in equity. The related costs are recognized as personnel expenses in the period in which the claim arose.

In September 2005, the Siegfried Group implemented an Employee Share Plan to allow employees who do not take part on the EOP to buy shares at plan rate, 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 booked as personnel expenses.

Profit sharing / bonus plans

Bonus obligations in cash and profit sharing 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.

Taxes

The tax expense for the period comprises current and deferred taxes. 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. The temporary differences are mainly due to the application of a declining balance depreciation allowed for tax purposes and to the creation of reserves on inventories and receivables as well as on the leverage shares of the EOP (Equity Ownership Plan). Deferred tax assets arising from temporary timing differences and tax loss carry-forwards are recognized if it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. Management analyzes on a annual basis the financial situation and the expected profits of the concerned companies. Changes in deferred taxes are recognized against net profit unless the tax relates to an item recognized directly in equity. No provisions are made for deferred income taxes on potential future dividends out of retained earnings, as these sums are deemed permanently reinvested.

Net sales

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 on 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 passed.

Government grants
In connection with investment projects, some foreign companies of the Siegfried Group receive government grants, which are capitalized at their fair value only if there is a high probability that the conditions will be met. Government grants related to fixed assets are deducted in arriving at the carrying amount of the fixed asset. The grant is recognized as income over the life of a depreciable asset by way of a reduced depreciation charge.

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 correction of risks. Risks associated with strategic projects are documented and evaluated in the dimensions External Risk (Market/Regulatory) and Internal Risk (Execution/Technology Risk). Responsibility for Strategic Projects and therefore also for the risk management always lies with a member of 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 18, 2012 the Board of Directors considered in depth the strategic projects and their inherent risks. When there were significant changes, it also called for information at other meetings about risks associated with strategic projects and took respective decisions. Operating risks were discussed and assessed by the Board of Directors at its regular meetings. The most important operational risks per area were defined on November 14, 2012. The annual report on the internal control system, including its assessment, was also approved at the meeting on November 14, 2012. The Risk Management and the ICS Reports were also pre-discussed in the Audit Committee on November 2, 2012.

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 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 to a lesser extent of the EUR.

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 primarily for strategic reasons. 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. Cash flow forecasting is performed in the operating entities of the Group and aggregated and monitored by Group Finance. The management of excess liquidity is also centralized.

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. It has also been laid down that no more than 30% of the liquid funds may be deposited with a single credit institute.

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 can 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 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 listed below.

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
At December 31, 2012, Siegfried had available unrecognized tax losses and tax credits of CHF 221.6 million. Any substantial change in the financial position of the subsidiaries, especially in the USA, would enable the use of these unrecognized tax assets and capitalization of the corresponding tax receivables. Management assesses the capitalization of tax losses and tax credits on an annual basis based on the taxable profits expected in the future (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 20.3 million would as a consequence be higher or lower (see also note 13).

Equity Ownership Plan – EOP
Management evaluates the expected target achievement of the EOP on a periodical basis and examines the amount of accruals for the leverage shares (see note 17).

1. Scope of Consolidation

The consolidation includes the following companies:

Group companies			
Operating			
Siegfried AG, Zofingen (Switzerland)	20 000 000	CHF	100.00%
Siegfried (USA), LLC, Pennsville, NJ (USA)	500 000	USD	100.00%
Penick Corporation, Pennsville, NJ (USA)	–	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	HKD	100.00%
Alliance Medical Products Inc., Irvine, CA (USA)	116 521	USD	100.00%
Siegfried (Nantong) Pharmaceuticals Co. Ltd.	46 688 794	CNY	100.00%
Finance and administration			
Siegfried Holding AG, Zofingen (Switzerland)	7 600 000	CHF	100.00%
Siegfried Finance AG, Zofingen (Switzerland)	14 000 000	CHF	100.00%
Sigamed AG, Baar (Switzerland)	500 000	CHF	100.00%
Siegfried Deutschland Holding GmbH, Lörrach (Germany)	1 790 000	EUR	100.00%
Penick Holding Company, Pennsville, NJ (USA)	2	USD	100.00%
Siegfried USA Holding Inc., Pennsville, NJ (USA)	3 000	USD	100.00%
Associated company			
SCI Pharmtech Inc., Taoyuan (Taiwan)	493 172 690	TWD	15.59%
Joint venture			
Alpine Dragon Pharmaceuticals Ltd., Huangyang, Gansu Province (China)	10 542 708	CNY	49.00%

On May 31, 2012 Siegfried acquired Alliance Medical Products Inc. (AMP), resident in Irvine, California, USA. In addition, in 2012 Siegfried USA Holding Inc. and Siegfried (Nantong) Pharmaceuticals Company, Ltd. were incorporated and Siegfried (USA) Inc. was renamed as Siegfried (USA) LLC.

As a result of SCI Pharmatech Inc.'s Management Participation Programme the interest in SCI Pharmtech Inc. has fallen compared with the prior year from 15.64% to 15.59% with a corresponding dilution effect.

2. Property, plant and equipment

In 1000 CHF	Vacant land	Buildings	Machinery and equipment	Assets under construction	Total
Acquisition costs					
As of January 1, 2011	547	166 571	447 221	7 445	621 784
Translation differences	–	–396	–1 294	–157	–1 847
Additions	–	–	953	12 251	13 204
Disposals	–	–703	–6 661	–81	–7 445
Reclassifications	–	1 832	10 614	–12 446	–
As of December 31, 2011	**547**	**167 304**	**450 833**	**7 012**	**625 696**
Translation differences	–	–1 109	–2 565	–99	–3 773
Change in scope of consolidation	–	926	5 256	190	6 372
Additions	6 395	50	1 430	21 830	29 705
Disposals	–	–7 413	–9 644	–19	–17 076
Reclassifications	–	641	9 527	–10 168	–
As of December 31, 2012	**6 942**	**160 399**	**454 837**	**18 746**	**640 924**
Accumulated depreciation and impairments					
As of January 1, 2011	–	96 723	330 269	–	426 992
Translation differences	–	–173	–704	–	–877
Depreciation charge	–	3 201	18 887	–	22 088
Disposals	–	–707	–6 416	–	–7 123
As of December 31, 2011	**–**	**99 044**	**342 036**	**–**	**441 080**
Translation differences	–	–646	–1 889	–	–2 535
Change in scope of consolidation	–	618	2 812	–	3 430
Depreciation charge	–	5 902	19 733	–	25 635
Disposals	–	–6 198	–8 886	–	–15 084
As of December 31, 2012	**–**	**98 720**	**353 806**	**–**	**452 526**
Net book value December 31, 2012	**6 942**	**61 679**	**101 030**	**18 746**	**188 398**
Net book value December 31, 2011	**547**	**68 260**	**108 797**	**7 012**	**184 616**
Insurance value December 31, 2012					854 633
Insurance value December 31, 2011					839 597

In connection with the exchange of land on July 13, 2012 with the city of Zofingen and StWZ Energie AG, Zofingen, an addition of vacantland of CHF 6.4 million and a disposal of buildings and equipment of CHF 1.8 million have been recognized.

As of December 31, 2012, commitments for the purchase of property, plant and equipment amounted to CHF 2.4 million (2011: CHF 4.1 million). In addition Siegfried is obligated to invest USD 49.1 million in the production site in Nantong (China).

3. Intangible Assets

In 1000 CHF	Licenses, patents	Trademarks	Software	Others	Total[1]
Acquisition costs					
As of January 1, 2011	10 335	6 285	9 917	–	26 537
Translation differences	–85	–52	–19	–	–156
Additions	–	–	652	–	652
Disposals	–	–	–570	–	–570
As of December 31, 2011	**10 250**	**6 233**	**9 980**	**–**	**26 463**
Translation differences	–303	–184	–59	–10	–556
Additions	–	–	30	737	767
Disposals	–	–	–48	–	–48
As of December 31, 2012	**9 947**	**6 049**	**9 903**	**727**	**26 626**
Accumulated depreciation and impairments					
As of January 1, 2011	4 520	4 191	8 071	–	16 782
Translation differences	–12	–3	7	–	–8
Amortization charge	393	500	1 072	–	1 965
Disposals	–	–	–570	–	–570
As of December 31, 2011	**4 901**	**4 688**	**8 580**	**–**	**18 169**
Translation differences	–155	–152	–56	–	–363
Amortization charge	415	529	864	–	1 808
Disposals	–	–	–48	–	–48
As of December 31, 2012	**5 161**	**5 065**	**9 340**	**–**	**19 566**
Net book value December 31, 2012	**4 786**	**984**	**563**	**727**	**7 060**
Net book value December 31, 2011	**5 349**	**1 545**	**1 400**	**–**	**8 294**

[1] 2011 restated (change from IFRS to Swiss GAAP FER)

The Goodwill arising on the acquisition of Alliance Medical Products Inc. (AMP) was set off against 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)	2012	2011
Theoretical Goodwill		
As of January 1	–	–
Additions	67 846	–
As of December 31	**67 846**	**–**
Accumulated amortization		
As of January 1		
Amortization	2 638	–
As of December 31	**2 638**	
Theoretical Goodwill December 31, 2012	**65 208**	**–**

The theoretical useful life applied for straight-line amortization is 15 years as it is regarded as a long-term investment into a new field of sterile filling for Siegfried. The Goodwill purchased on acquisitions 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)	2012	2011
Operating result according to Income Statement	17 923	–
Amortization of Goodwill	–2 638	–
Theoretical operating result incl. amortization of Goodwill	15 285	–
Net profit according to Income Statement	20 868	
Amortization of Goodwill	–2 638	–
Theoretical net profit incl. amortization of Goodwill	18 230	–

4. Investment in associated companies and Joint ventures

The investment in SCI Pharmtech is classified as an associated company because there is significant influence as a result of the representation on the Board of Directors. The shares in this company are listed on the stock exchange in Taiwan. Based on the share price at December 31, 2012, the fair value of Siegfried's interest in this company amounted to CHF 17.5 million (2011: CHF 12.0 million). Because at the time of preparing this Annual Report the annual accounts were not yet available, estimates of the result, based on publicly available reports and estimates by independent financial analysts, were used.

Alpine Dragon Pharmaceuticals Ltd. was incorporated during 2007 as a joint venture with the Chinese company Gansu Medical Alkaloids, Inc. The joint venture company is at present in the development stage, and therefore no sales have yet been made and the impact on the Financial Statements is immaterial. 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. Securities, financial instruments and other non-current assets

Financial assets and liabilities are classified in the following categories:

In 1000 CHF	**2012**	2011
Shares Arena Pharmaceuticals Inc., San Diego, USA	–	2 076
Burill Life Sciences Capital Fund, San Francisco, USA	217	426
Other non-current assets	–	1 069
Total securities, financial and other non-current assets	**217**	**3 571**

The amount capitalized in the Burrill Fund represents the market value of the capital portion according to valuation documents received from the fund. At December 31, 2012, a loss of CHF 0.2 million was recognized through Income Statement. Miscellaneous securities include various long-term investments, some of which are not traded in an active market. In these cases the management of the fund determines the Fair Value, applying specific valuation methods. These include comparable transactions on market-conform conditions and discounted cash flow analyses. In 2012, the Group received distributions of realized investments from the fund in the amount of CHF 0.02 million (2011: CHF 1.1 million), which were recognized in Financial income. In 2012 the Group sold all the Arena shares and realized a profit of CHF 0.02 million.

6. Income taxes

Income taxes in the Consolidated Income Statement

In 1 000 CHF	2012	2011
Current tax expense	63	464
Deferred tax (income)/-expense	–5 764	365
Total	**–5 701**	**829**

The Group owns a large amount of loss carry forwards. Of these, CHF 20.0 million (2011: CHF 3.0 million) were recognized as of December 31, 2012.

The following unrecognized tax losses are available to Siegfried:

In 1 000 CHF	2012	2011
Expiry of unrecognized tax losses and tax credits		
Within one year	–	519
Between one and five years	54 222	131 724
More than five years	167 369	179 603
Total unrecognized tax losses and tax credits	**221 591**	**311 846**

7. Inventories

In 1 000 CHF	2012	2011
Raw materials	35 804	29 793
Semi-finished goods	54 102	51 864
Finished goods and trading goods	31 798	29 622
Total inventories	**121 704**	**111 279**

The carrying amount of inventories includes valuation allowances of CHF 8.8 million (2011: CHF 11.6 million). In the Income Statement, CHF 4.5 million (2011: CHF 1.0 million) was written off as impairments to costs of goods sold.

8. Trade receivables

In 1 000 CHF	2012	2011
Trade receivables	56 042	47 734
Allowances for doubtful accounts	– 188	– 107
Total trade receivables	**55 854**	**47 627**

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. Receivables more than 6 months overdue in the amount of CHF 0.2 million (2011: CHF 0.1 million) are included in the allowances. As in the previous year there were no receivable losses (2011: none).

9. Derivative financial instruments

The guidelines of Siegfried's financial risk management are described in the accounting principles. Within the framework of these guidelines, Siegfried 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 contracts were open. Foreign currency forward and interest rate contracts were used to hedge net payment flows in the financial year 2012, aggregating USD 17.7 million and EUR 4.5 million. The change in the fair value of these foreign exchange contracts is included in the Financial result. For the period of the underlying loan taken up in relation to the acquistion of Alliance Medical Products Inc., the company entered into an interest and currency rate Swap for an initial amount of USD 52 mio with a number of banks in order to hedge the interest expense. The fair value of this foreign currency instrument is recorded in the financial results as well as in equity.

Derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In 1 000 CHF	2012	2011	2012	2011	2012	2011
Foreign currency swaps	21 606	8 016	566	–	12	135
Interest rate swaps	47 512	–	–	–	263	–
Total	**69 118**	**8 016**	**566**	**–**	**275**	**135**

10. Treasury shares

Treasury shares are deducted at transaction value directly from equity. At December 31, 2012, the book value of the treasury shares was CHF 20.4 million (2011: CHF 17.2 million). 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 159.

Treasury shares	2011	Change	2012
Shares reserved for Employee Share Plan	12 846	– 12 846	–
Treasury shares not reserved	169 829	28 541	198 370
Total treasury shares	**182 675**	**15 695**	**198 370**
Total Siegfried shares	**3 800 000**	**–**	**3 800 000**
Total outstanding shares	**3 617 325**	**– 15 695**	**3 601 630**

11. Share capital – conditional capital

The share capital of Siegfried Holding AG amounts to CHF 7.6 million, divided into 3.8 million shares with a nominal value of CHF 2 each. Siegfried has a conditional capital of CHF 0.8 million for the creation of 400 000 new shares.

Conditional capital (number of shares)	December 31, 2011	Change	December 31, 2012
Mandatory Convertible Note (MCN)	50 000	–	50 000[1]
Equity Ownership Plan (EOP)	350 000	–	350 000
Total	**400 000**	**–**	**400 000**

[1] No more needed for Mandatory Convertible Note due to complete conversion.

12. Financial liabilities

The credit line made available by a syndicate has a volume of CHF 150 million with a duration of five years. It is structured to meet the Group’s current needs. A small part is foreseen for the financing of the ongoing business, the larger part is available on call for the implementation of the strategy “Transform”. The financial covenants consist of a maximum net debt ratio defined as 2.5 times EBITDA before charges for the Equity Ownership Plan (resp. an elevated ratio of 3.25 during a coherent period of 18 months). The second financial covenant is defined as a minimum equity ratio of 50%. The Group fulfilled both financial covenants at year-end. As of December 31, 2012 USD 52.0 million were drawn from the credit line.

13. Provisions

In 1 000 CHF	Environmental provisions	Other provisions	Total
Statement of changes			
As of January 1, 2011	9 417	3 227	12 644
Costs incurred	–	–515	–515
Additions, interest	734	–	734
Releases (unused provisions)	–	–813	–813
Currency translation	30	–	30
As of December 31, 2011	**10 181**	**1 899**	**12 080**
Thereof current	1 161	1 899	3 060
Thereof non-current	9 020	–	9 020
Statement of changes			
As of January 1, 2012	10 181	1 899	12 080
Costs incurred	–58	–591	–649
Additions, interest	10 221	2 462	12 683
Releases (unused provisions)	–	–125	–125
Currency translation	–14	–	–14
As of December 31, 2012	**20 329**	**3 645**	**23 974**
Thereof current	9 123	3 145	12 268
Thereof non-current	11 205	500	11 705

The Siegfried Group produces chemicals at various locations. As part of the manufacturing process, undesirable incidents may arise that result in an obligation to remedy pollutant effects on the environment. Such obligations are recognized in the period when they become apparent. 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 connection with planned construction projects, environmental investigations were performed. Possible remediation obligations of CHF 20.3 million have been provided for (2011: CHF 10.2 million). The start of the planned construction projects is anticipated within the next 15 years. The environmental provision was discounted with 4% to the present value of the expected expenditures CHF 0.2 million (2011: CHF 0.3 million). Management reviews the provisions annually, based on regulatory changes or changes in planned investments. In connection with the land exchange from July 13, 2012 a provision for future cleaning up in the amount of CHF 10.0 million was recorded.

Other provisions relate to transfer costs and other costs in direct connection with the sale transaction with Arena Pharmaceuticals GmbH in 2008 and provisions for other operating risks. In connection with Arena Pharmaceuticals GmbH, CHF 0.3 million were used for transfer costs. A provision of CHF 0.3 million was posted for demolition. An additional provision of CHF 2.5 million was recorded for upcoming construction work on the site, which stand in direct connection with the transaction land exchange.

14. Other non-current liabilities

The liabilities for employee benefits relate to long service awards foreseen in regulations CHF 1.3 million (2011: CHF 1.1 million) and other non-current liabilities include mainly payments for the development of generic dossiers (down payments) CHF 2.5 million (2011: CHF 4.5 million). They are released over the term of the production contract. In connection with the transaction land exchange CHF 1.8 million other non-current liabilities were posted for future restoration works with a maximal defined price.

The increase in non-current liabilities relates to the acquisition of Alliance Medical Products Inc. (AMP) from May 31, 2012. The Earn-out which will be due in 2014 was recognized as a non-current liability (see note 18).

15. Accruals

The accrued expenses include goods received, but not yet invoiced, sales commissions, accruals for personnel costs and social security charges as well as various expense and income accruals.

16. Employee benefits and personnel expenses

In 1 000 CHF	2012	2011
Wages and salaries	79 749	69 175
Share-based payments	20 829	8 394
Pension expense defined contribution plans	599	537
Pension expense defined benefit plans	6 112	5 561
Expense other long-term employee benefits	241	124
Social and other personnel expenses	14 452	12 372
Total personnel expenses	**121 982**	**96 163**

In the year under review, the average number of employees (in full-time positions) was 832 (2011: 715).

In 2012 the former employees and pensioners in the retirement benefit plan in Germany were paid-out or were transferred into an insurance. Through this transaction the Group carried in 2012 onetime special effects.

Pension liability and economic benefit loosk as flollows:

	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 1 000 CHF	**31/12/2012**	**31/12/2012**	31/12/2011	**31/12/2012**	**2012**	**2012**	2011
Pension schemes without excess/ insufficient cover (CH)	12 239	220	216	–3	4 491	4 488	4 398
Pension costs (CH)	–623	–606	–298	307	6	313	7
Non-current employee benefits	–1 303	–1 303	–1 175	128	113	241	124
Pension schemes without excess/ insufficient cover (D)	0.0	0.0	–1 504	–1 504	1 779	243	16
Pension schemes without excess/ insufficient cover (USA)	–457	–457	0.0	457	635	1 068	1 140
Total	**9 856**	**–2 146**	**–2 761**	**–615**	**7 024**	**6 353**	**5 685**

	Nominal value	Waiver of usage	Other value adj.	Balance Sheet (provision)/asset		Result from ECR in personnel expenses	
In 1 000 CHF	**31/12/2012**	**31/12/2012**	**31/12/2012**	**31/12/2012**	31/12/2011	**2012**	2011
Welfare funds (CH)	7 073	0	0	7 073	6 934	–139	–226
Pension schemes (CH)	0	0	0	0	0	0	0
	7 073	**0**	**0**	**7 073**	**6 934**	**–139**	**–226**

17. Share-based payments

At the beginning of June 2010, a new Equity Ownership Plan (EOP) was introduced for the members of the Board of Directors, Executive Management and Management. The plan consists of three elements:

- Initial Shares (resp. Initial Investment), which can be purchased with a starting investment by the Directors, the members of Executive Management or the employees.
- Bonus Shares, which result from the payment of part of the Director's fee or of the bonus of the member of Executive Management or of the employee in restricted shares (that are Bonus Shares).
- Allocation of Leverage Shares in the years 2014 and 2016, if specifically defined performance goals are achieved in the years 2013 and 2015.

In detail, the EOP looks as follows:

Board of Directors
The members of the Board receive for the years 2010 to 2014 80% of their base remuneration in shares blocked for a period of three years. They could buy themselves into the programme with maximum CHF 300 000. This Initial Investment is blocked for a period of four years. There are no additional fees included for functions as Chairman, Deputy-Chairman or Chair of a Committee of the Board. Also any lump-sum expenses are not included. The shares invested in or acquired are allocated over the entire period with a conversion factor of CHF 80. The fair value of the shares at grant was established on the basis of the stock exchange closing price. Leverage shares will be allocated to the members of the Directors in the years 2014 and 2016 dependent on pre-defined financial key figures (Enterprise Value and return on capital employed ROCE) and the realization of set strategic targets if they have been in the plan for at least 12 months. The number of shares allocated further depends on the amount and duration of the invested capital and of the number of shares acquired over the years. On the first allocation the plan participant will be allocated at the end of March 2014 for each Initial Share and Bonus Share purchased or allocated under the EOP before the end of December 2012 – depending to the extent the targets were achieved – per target between 0 and 1.5 for Initial Shares and 0 and 1.2 for Bonus Shares. Overall, per allocation period, this gives a leverage of between 0 and 4.5 shares respective between 0 and 3.6 shares. On the second allocation the plan participant will be allocated at the end of March 2016 for every Bonus Share acquired in the years 2013 and 2014 per target between 0 and 1.5 Leverage Shares. Leverage Shares will not even be allocated until, for Enterprise Value, a target achievement of 75% is reached and, for ROCE, an achievement of 73%. If the achievement is less than these amounts, no Leverage Shares will be allocated. In each of the allocation periods at least one strategic measure must be realized. Half of the leverage shares are blocked for one year, the other half for two years. On withdrawal, purchased and allocated shares remain the property of the beneficiary, but the restriction period continues to run.

Executive Management and Management
The bonuses of the members of Executive Management for the years 2010 to 2014 will as to 70% be paid in Siegfried shares, blocked for a period of three years, those of Management as to 40%. The members of Executive Management could buy themselves into the programme to the extent of 40%–100% of their annual base salary, Management to the extent of 0%–50% of their annual base salary. This Initial Investment is blocked for a period of four years. The shares invested in or acquired are allocated over the entire period with a conversion factor of CHF 80. The fair value of the shares at grant was established on the basis of the stock exchange closing price. Leverage shares will be allocated to the members of Executive Management and Management in the years 2014 and 2016, depending on pre-defined financial key figures (enterprise value and return on capital employed ROCE) and the realization of set strategic targets, subject to the condition that at December 31 of the prior year their employment is not under notice (exceptions: early withdrawal as a result of retirement, death / disability, provided they have been in the plan for at least 12 months). On the first allocation the plan participant will be allocated at the end of March 2014 for each Initial Share and Bonus Share purchased or allocated under the EOP before the end of December 2012 – depending on the extent the targets were achieved – per target between 0 and 1.5 shares. Overall, per allocation period, this gives a leverage of between 0 and 4.5 shares. On the second allocation the plan participant will be allocated at the end of March 2016 for every Bonus Share acquired in the years 2013 and 2014 per target between 0 and 1.5 Leverage Shares. Leverage Shares will not even be allocated until, for Enterprise Value, a target achievement of 75% is reached and, for ROCE, an achievement of 73%. If the achievement is less than these amounts, no Leverage Shares will be allocated. In each of the allocation periods at least one strategic measure must be realized. Half of the leverage shares are blocked for one year, the other half for two years. On withdrawal, purchased and allocated shares remain the property of the beneficiary, but the restriction period continues to run.

For the reporting period a total of CHF 2.7 million were accrued for bonuses relating to share-based payment, which will be allocated to the plan members in form of blocked shares. For the leverage shares which will possibly be allocated in 2014 and 2016 an expense for the EOP 2010 of CHF 15.5 million was posted (2011: CHF 6.2 million). Starting at January 1, 2012 the lower management has the opportunity to participate at the EOP (EOP 2012). This plan has a lower leverage. In the reporting period an expense for leverage shares for EOP 2012 of CHF 2.1 million was posted (2011: 0). Additionally an expense of CHF 0.5 million was posted for the initial investments of new plan members.

Besides the newly launched Equity Ownership Plan for the Board of Directors, Executive Management and Management the ordinary employee share plan still exists (Employee Share Purchase Plan – ESPP). The total costs for the Employee Share Purchase Plan in the year under review amounted to CHF 0.1 million (2011: CHF 0.2 million). In the reporting period, 2 585 shares (2011: 6 041 shares) were purchased from the plan. The total funds accumulated as of December 31, 2012 entitle plan participants to receive 230 shares (2011: 632 shares).

18. Acquisitions

On May 31, 2012 Siegfried acquired Alliance Medical Products, Inc. (AMP), headquartered in Irvine, California, USA. AMP specializes in sterile filling services and therefore is a valuable addition to the Siegfried Group's product portfolio. The purchase price of CHF 57.8 million (incl. transaction costs and net of cash) was paid immediately in cash. If the company reaches certain defined criteria at the end of the financial year 2013 an additional earn-out will be paid in 2014. The earn-out is recorded as other non-current liability and is the main driver for the increase in this line item compared to the year-end balance. The Goodwill from this transaction of CHF 67.8 million was charged against equity. Based on new information the goodwill was adapted in the second half year of 2012 by CHF 0.4 million. In connection with this transaction Siegfried USA Holding Inc., which holds directly or indirectly all the US investments, was incorporated. At the date of the acquisition AMP held the following important Balance Sheet items:

In 1 000 CHF	May 31, 2012
Cash	1 199
Inventories	1 405
Other current assets	2 783
Non-current assets	3 081
Total assets	**8 468**
Current liabilities	1 469
Non-current liabilities	512
Equity	6 487
Total liabilities and equity	**8 468**

19. Other operating income

Other operating income includes CHF 0.5 million for royalty income (2011: CHF 0.6 million), CHF 0.3 million for environmental compensation (CHF 0.4 million), CHF 4.9 million gain from the sale of tangible assets (2011: CHF 1.4 million) and CHF 1.1. million for other several income (2011: CHF 1.1 million).

20. Earnings per share

For the calculation of the profit per share, the number of shares is reduced by the weighted average shares held by the Group.

	2012	2011
Net income attributable to Siegfried shareholders (in 1000 CHF)	20 868	9 683
Weighted average number of shares outstanding	3 622 543	3 671 024
Undiluted earnings per share	**5.76**	**2.64**
Net income attributable to Siegfried shareholders (in 1000 CHF)	20 868	9 683
Weighted average number of shares outstanding	3 622 543	3 671 024
Adjustment for assumed exercise of share-based payments, where dilutive	135 133	97 562
Diluted earnings per share	**5.55**	**2.57**

21. Distribution per share

For the financial year 2012 the Board of Directors proposes the distribution from reserves from capital contribution of CHF 1.20 per share (2011: CHF 1.00 per share). If this is approved by the General Meeting on April 18, 2013, it will result in a total payment of CHF 4.3 million to the shareholders. The dividend amount mentioned in the proposal of the Board of Directors was calculated based on the number of shares entitled for distribution at the date the resolution was passed by the Board of Directors. The number of shares entitled for distribution may change by the time of the General Meeting on April 18, 2013 as the result of the issue of shares to employees or the purchase or sale of treasury shares.

22. 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 insurance, are not predictable. Possible obligations that are dependent on future events are disclosed as contingent liabilities. As of December 31, 2012, contingent liabilities amount to CHF 0.9 million (2011: CHF 0.9 million). On December 31, 2012, Siegfried Holding AG has given guarantees to banks in the amount of USD 4.0 million (2011: USD 4.0 million). These serve as securities for leasing transactions.

Contingent liabilities for additional purchase price payments and royalty payments in connection with the acquisition of the Penick companies in May 2005 are as follows: Royalty payments of 5% are due on annual sales exceeding USD 45 million until 2014. It is not expected that these sales limits will be exceeded.

23. Maturity of rental and lease liabilities

	Operating leases	Operating leases
In 1 000 CHF	**2012**	2011
Due under 1 year	1 460	648
Due between 1 and 2 years	1 478	625
Due between 2 and 3 years	1 074	587
Due between 3 and 4 years	993	147
Due between 4 and 5 years	995	32
Due after 5 years	2 086	–
Total lease liabilities	**8 086**	**2 039**

Of the leasing liabilities CHF 0.7 million (2011: CHF 1.0 million) relate to the production facility in Malta and CHF 6.7 million to the production site in Irvine, California.

24. Transactions with related parties

The companies belonging to the Siegfried Group are listed under "Scope of consolidation" (note 1). During the reporting period, products to the value of CHF 1.3 million (2011: CHF 0.6 million) were purchased from the associated company, SCI Pharmtech Inc., Taiwan. All transactions between fully consolidated companies have been eliminated as part of the consolidation and are not described in this note.

The compensation of the members of the Board of Directors and Management is described and presented in detail in the compensation report in sections 4 and 5 and in the Notes of the Siegfried Holding report according to Art. 663b bis OR.

25. Segment information

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

Net sales to third parties

In CHF million	2012	2011
Sales of products	359.7	320.0
Services	8.1	8.1
Total net sales	**367.8**	**328.1**

Net sales by product group

In CHF million	2012	2011
Drug Substance	270.3	277.1
Drug Products	97.5	51.0
Total	**367.8**	**328.1**

Geographic information[1]

The most important markets are Western Europe and the USA.

In CHF million	2012	2011
USA	149.2	151.2
Switzerland	79.6	66.4
Other regions	139.0	110.5
Total	**367.8**	**328.1**

[1] by location of customers

26. Events after the reporting period

There are no events after the balance sheet date.

Report of the statutory auditor

Report of the statutory auditor on the consolidated financial statements

To the General Meeting of Siegfried Holding AG, Zofingen

As statutory auditor, we have audited the accompanying consolidated financial statements of Siegfried Holding AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes (pages 118 to 151), for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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	Karen Schmitt Audit expert

Basel, February 27th, 2013

pwc

Financial Statements Siegfried Holding AG

Contents

Balance sheet of Siegfried Holding AG

In CHF (as of December 31)	2012	2011
Assets		
Non-current assets		
Fixed assets	1 750	2 547
Intangible assets	7 149	22 265
Investments in subsidiaries and affiliates	145 445 281	89 846 375
Loans to subsidiaries	240 053 301	244 493 694
Total non-current assets	**385 507 481**	**334 364 881**
Current assets		
Other receivables third parties	6 316	1 192
Other receivables subsidiaries	500	265 617
Prepaid expenses	1 339 120	1 232 387
Securities	20 045 515	12 375 172
Cash and cash equivalents	21 551 738	10 723 773
Total current assets	**42 943 189**	**24 598 141**
Total assets	**428 450 670**	**358 963 022**

In CHF	2012	2011
Liabilities and shareholders' equity		
Shareholders' equity		
Share capital	7 600 000	7 600 000
Legal reserves	2 800 000	2 800 000
Reserves from capital contributions	70 462 270	74 111 338
Reserves for treasury shares	20 429 605	17 185 682
Free reserves	247 897 575	270 992 675
Retained earnings/(accumulated deficit)	56 955 593	–19 851 177
Total shareholders' equity	**406 145 043**	**352 838 518**
Liabilities		
Financial liabilities to third parties	–	613 309
Financial liabilities to subsidiaries	21 114 651	4 511 274
Other liabilities to third parties	252 671	47 235
Accrued expenses	938 305	952 686
Total liabilities	**22 305 627**	**6 124 503**
Total liabilities and shareholders' equity	**428 450 670**	**358 963 021**

Income Statement of Siegfried Holding AG

In CHF	2012	2011
Income		
Financial income	6 622 515	5 741 240
Service income	9 243 821	7 277 597
Income from investments	48 640 001	–
Extraordinary income	–	1 223 887
Total income	**64 506 337**	**14 242 724**
Expenses		
Administrative expenses	4 024 726	2 539 428
Financial expenses	747 245	2 150 709
Taxes	73 726	47 453
Depreciation	15 913	16 050
Impairment of investments in subsidiaries and loans	2 689 134	9 667 376
Total expenses	**7 550 744**	**14 421 016**
Net profit / (net loss)	**56 955 593**	**–178 292**

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.

Guarantees and securities
The guarantees and securities amount to CHF 165.0 million (2011: CHF 165.0 million) at year-end. To secure the syndicated loan Siegfried Holding AG has assigned receivables from subsidiaries in favor of the lending banks. At December 31, 2012, Siegfried Group used the credit line in the amount of USD 52.0 million. At December 31, 2012, there were guarantees from Siegfried Holding AG to the banks in the amount of USD 4.0 million to secure lease transactions of subsidiaries.

Insurance value of fixed assets
CHF 0.1 million (2011: CHF 0.1 million).

Balance Sheet

Investments
During the reporting period Siegfried (USA) LLC was transferred to the new founded Siegfried USA Holding Inc. As of December 31, 2012, Siegfried Holding AG holds the following investments:

Company	Domicile	Scope	Currency	Partici-pation	**Share capital December 31, 2012**	Share capital December 31, 2011
Siegfried AG	Zofingen (Switzerland)	Production	CHF	100.00%	20 000 000	20 000 000
Siegfried International AG	Zofingen (Switzerland)	Production	CHF	100.00%	2 000 000	2 000 000
Siegfried Hong Kong Ltd.	Hong Kong (CN)	Trade, management and Finance	HKD	100.00%	1	1
Siegfried Finance AG	Zofingen (Switzerland)	Finance and administration	CHF	100.00%	14 000 000	14 000 000
Sigamed AG	Baar (Switzerland)	Finance and administration	CHF	100.00%	500 000	500 000
Siegfried USA Holding Inc.	Pennsville, NJ (USA)	Finance and administration	USD	100.00%	3 000	–
Siegfried Deutschland Holding GmbH	Lörrach (Germany)	Finance and administration	EUR	100.00%	1 790 000	1 790 000

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 were used for the financing of capital expenditures and other operational activities. The intangible assets include capitalized software.

Current assets
Securities are stated at the lower of cost or market value at the balance sheet date.

Shareholders'equity
The share capital of CHF 7.6 million comprises 3 800 000 registered shares of CHF 2 nominal value each. Ordinary reserves remain unchanged at CHF 2.8 million. In addition, CHF 70.5 million reserves from capital contributions were created from converted mandatory convertible notes. The accumulated loss of CHF 19.9 million of the previous year was charged against free reserves. In addition, the reserves for treasury shares were increased by CHF 3.2 million from the free reserves, reflecting the net value of purchases and sales during the reporting period, measured at cost.

Conditional capital
Siegfried remains conditional capital of CHF 0.8 million for the creation of 400 000 new shares, of which 350 000 are reserved for the Equity Ownership Plan (EOP).

Treasury shares
During the reporting period, Siegfried Holding AG and one of its subsidiaries have purchased and sold Siegfried shares, resulting in a net increase of 15 695 shares.

CHF	Number of shares	Average prices
At January 1, 2011	**110 983**	**97.7**
Purchases Jan.–Dec. 2011	179 542	91.4
Sales Jan.–Dec. 2011	–107 850	89.4
At December 31, 2011	**182 675**	**94.0**
Purchases Jan.–Dec. 2012	180 599	103.8
Sales Jan.–Dec. 2012	–164 904	94.8
At December 31, 2012	**198 370**	**103.0**

Liabilities
As of December 31, 2012, the syndicated bank loan of the Siegfried Group with a credit line of CHF 150 million (2011: 150 million) was utilized by a subsidiary company with CHF 52 million. The syndicated bank loan expires in 2016.

Accrued expenses include the deferrals and accruals of various income and expense items.

Income statement

As in the previous year there was no dividend income from subsidiaries. Financial income consists of interest on receivables from subsidiaries, foreign exchange gains, and income from the securities portfolio. Service income relates to services provided to subsidiaries. On May 31, 2012 Siegfried (USA), LLC was transferred to Siegfried USA Holding Inc. This results in an investment income of CHF 48.6 million.

Financial expenses include interest on loans from third parties and subsidiaries, exchange losses, and valuation adjustments on loans to subsidiaries.

Content and procedure for determining compensation and participation programmes

The Board of Directors nominates the members of the Human Resources Committee (HRC), determines its responsibilities and approves its decisions concerning the Group's compensation system.

The HRC is responsible for designing the compensation system for the company's Directors and top management. It evaluates the compensation principles and systems and ensures that the compensation paid by the company is based on market-conform and performance-based criteria. At least once a year the HRC reports to the Board of Directors on the compensation procedures and on the compensation of managers and, if necessary, proposes changes in the compensation system.

The members of the Board of Directors receive an annual fee, consisting of a base fee for the appointment as Director and additional fees for individual functions as Chairman, Deputy Chairman or Chair of a Committee of the Board. 80% of the base fee are paid in Siegfried shares. In addition, inconvenience compensation is paid in the form of lump-sum expenses approximating the effective outlays.

The members of the Executive Management, including the CEO, receive salaries, bonuses and other compensation elements in accordance with the compensation principles. In addition, inconvenience compensation was paid in the form of lump-sum expenses approximating the effective outlays. As in the previous year, the highest total compensation was received in 2012 by the CEO.

At the beginning of June 2010, the Equity Ownership Plan or EOP was introduced for the members of the Board of Directors, the Executive Management and the senior management. The plan consists of an initial investment, bonus shares and leverage shares, which will be allocated in 2014 and 2016 according to the achievement of the set goals. Initial investment shares are blocked for 4 years, and the bonus shares are blocked for 3 years. Half of the leverage shares are blocked for 1 year, the other half is blocked for 2 years.

For further details please refer to note 17 of the Consolidated Financial Statements and the separate compensation report.

The following tables show the compensation of the Board of Directors and Executive Management (2012: 8 members, 2011: 7 members) according to Art. 663b^{bis} OR

Board of Directors	Function	Compen-sation cash	Share-based payment	Expenditure for social security	**Total 2012** [1]
Acting Board of Directors December 31, 2012					
Gilbert Achermann	Chairman	150 337	203 468	38 403	392 208
Dr. Andreas Casutt	Deputy Chairman	54 000	67 823	5 871	127 694
Reto Garzetti	Member	14 000	67 823	4 205	86 028
Dr. Felix K. Meyer	Member	14 000	67 823	4 205	86 028
Dr. Thomas Villiger	Member	34 000	78 564	6 126	118 690
Former Board members December 31, 2012					
Dr. Thomas Staehelin (until April 20, 2012)	Deputy Chairman	–	–	–	–
Dr. Beat In-Albon (until May 30, 2012)	Member	–	–	–	–
Total		**266 337**	**485 501**	**58 810**	**810 648** [2]

[1] Based on tax values
[2] The compensation of the Board of Directors shows annualized figures.

Executive Management	Compensation cash fixed	Compen-sation cash variable	Share-based payment variable	Expenditure for social security	**Total 2012** [1]
Highest individual compensation: Rudolf Hanko (CEO)	570 000	85 390	411 344	135 398	1 202 132
Other members of the Executive Management	2 051 549	468 032	848 190	430 802	3 798 573
Total compensation Executive Management	**2 621 549**	**553 422**	**1 259 534**	**566 200**	**5 000 705**

[1] Based on tax values

Board of Directors	Function	Compen-sation cash	Share-based payment	Expenditure for social security	Total 2011 [1]
Acting Board of Directors December 31, 2011					
Gilbert Achermann (from May 24, 2011)	Chairman	152 000	159 817	36 366	348 183
Dr. Thomas Staehelin	Deputy Chairman	54 000	53 272	7 360	114 632
Dr. Andreas Casutt	Member	14 000	53 272	5 116	72 388
Reto Garzetti (from May 24, 2011)	Member	14 000	53 272	5 116	72 388
Dr. Beat In-Albon (from May 24, 2011)	Member	14 000	53 272	5 116	72 388
Dr. Felix K. Meyer	Member	14 000	53 272	5 116	72 388
Dr. Thomas Villiger (from May 24, 2011)	Member	34 000	53 272	5 320	92 592
Former Board members December 31, 2011					
Dr. Markus Altwegg (until May 24, 2011)	Chairman	–	–	–	–
Susy Brüschweiler (until May 24, 2011)	Member				
Dr. Felix Gutzwiler (until May 24, 2011)	Member	–	–	–	–
Total		**296 000**	**479 449**	**69 510**	**844 959** [2]

[1] Based on tax values
[2] The compensation of the Board of Directors shows annualized figures.

Executive Management	Compensation cash fixed	Compen-sation cash variable	Share-based payment variable	Expenditure for social security	Total 2011 [1]
Highest individual compensation: Rudolf Hanko (CEO)	565 000	87 124	368 134	124 230	1 144 488
Other members of the Executive Management	1 892 236	329 299	580 880	376 701	3 179 116
Total compensation Executive Management	**2 457 236**	**416 423**	**949 014**	**500 931**	**4 323 604**

[1] Based on tax values

Loans to members of executive bodies

The members of the Board of Directors or of the 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, 2012, 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 of the Management or to persons closely related to them.

Share ownership

On December 31, 2012, the non-executive members of the Board of Directors and persons closely related to them owned 32 772 (2011: 41 135) registered shares of Siegfried Holding AG. This represents 0.9% (2011: 1.1%) of the entire share capital of Siegfried Holding AG. The members of the Management (including persons closely related to them) owned at the same date 47 756 (2011: 34 225) registered shares, i.e. 1.3% (2011: 0.9%) of the share capital of Siegfried Holding AG.

December 31, 2012			
Board of Directors	Function	Number of shares	of which blocked [1]
Gilbert Achermann	Chairman	15 850	5 850
Dr. Andreas Casutt	Deputy Chairman	5 620	4 950
Reto Garzetti	Member	4 450	4 450
Dr. Felix K. Meyer	Member	5 152	4 386
Dr. Thomas Villiger	Member	1 700	1 700
Executive Management			
Dr. Rudolf Hanko	CEO	17 830	16 740
Michael Hüsler	CFO	5 771	5 741
Peter A. Gehler	Head Corporate Center	5 084	5 025
Dr. René Imwinkelried	Head Research & Development	2 300	2 300
Dr. Walter Kittl	Head Technical Operations	4 168	4 069
Arnoud Middel	Head Human Resources	1 820	1 820
Marianne Späne	Head Business Development & Sales	6 531	5 697
Dr. Wolfgang Wienand	Head Strategy & M&A	4 252	4 252

[1] Number of blocked shares from Equity Ownership Plan (EOP) and Employee Share Purchase Plan (ESPP)

December 31, 2011

Board of Directors	Function	Number of shares	of which blocked[1]
Gilbert Achermann	President	13 750	3 750
Dr. Thomas Staehelin	Deputy Chairman	12 763	5 060
Dr. Andreas Casutt	Member	4 920	4 250
Reto Garzetti	Member	3 750	3 750
Dr. Beat In-Albon	Member	1 500	1 500
Dr. Felix K. Meyer	Member	4 452	4 081
Dr. Thomas Villiger	Member	–	–
Executive Management			
Dr. Rudolf Hanko	CEO	13 231	12 641
Michael Hüsler	CFO	4 475	4 445
Peter A. Gehler	Head Corporate Center	4 180	4 159
Dr. Walter Kittl	Head Technical Operations	3 114	3 114
Arnoud Middel	Head Human Resources	1 500	1 500
Marianne Späne	Head Business Development & Sales	4 881	4 397
Dr. Wolfgang Wienand	Head Strategy & M&A and Head Research & Development	2 844	2 844

[1] Blocked shares from Equity Ownership Plan (EOP) and Employee Share Purchase Plan (ESPP).

Major shareholders

Shareholders representing more than 3% relating to the number of Siegfried shares at year end of 3 800 000 (2011: 3 800 000):
– Rainer-Marc Frey holds 10.3% (2011: 12.1%) of the shares in Siegfried Holding AG.
– According to its own statement, Tweedy, Browne Company LLC, New York, USA, holds an interest of 9.9% of the shares of Siegfried Holding AG (2011: 9.9%)
– SE Swiss Equities, holds 5.9% (2011: 8.2%) of the shares in Siegfried Holding AG.
– According to their own statement, the Kreissparkasse Biberach, Biberach, Germany (Bayerninvest Kapitalgesellschaft mbH, München and LBBW Asset Management Investment GmbH, Stuttgart) holds 3.6% (2011: 3.4%) of the shares in Siegfried Holding AG.

Risk management

The Board of Directors and Management are responsible for the risk management process of the Siegfried Group, in which the risks of Siegfried Holding AG are included. In this connection the business risks and their development are analyzed, and it is ensured that the measures necessary for their limitation are taken. Special attention is paid to financial reporting risks. A more detailed description of the risk assessment can be found in the Notes to the Consolidated Financial Statements under "Risk management" on page 131.

Proposal of the Board of Directors to the Annual General Meeting of April 18, 2013 regarding appropriation of the available earnings and capital contribution reserves

In CHF	2012
Net profit	56 955 593
Balance brought forward	–
Accumulated profit	56 955 593
Balance to be carried forward	**56 955 593**
Reserves from capital contributions as of December 31, 2012	70 462 270
Distribution of CHF 1.20 per registered share on 3 597 394 distribution entitled shares	–4 316 873
Reserves from captial contributions carried forward	**66 145 397**

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 Board meeting. The number of shares entitled for distribution can still change up to the Annual General Meeting on April 18, 2013 depending on the distribution of shares to employees or purchase/sale of own shares.

Report of the statutory auditor

Report of the statutory auditor on the financial statements

To the General Meeting of Siegfried Holding AG, Zofingen

As statutory auditor, we have audited the financial statements of Siegfried Holding AG, which comprise the balance sheet, income statement and notes (pages 156 to 164), for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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	Karen Schmitt
Audit expert	Audit expert
Auditor in charge	

Basel, February 27th, 2013

pwc

Key figures overview 2009–2012, consolidated figures[1]

		2012	2011	2010	2009
Net sales	CHF million	367.8	328.1	314.4	283.0
Growth	in %	12.1	4.4	11.1	–2.2
EBITDA	CHF million	45.4	36.5	28.1	25.3
Growth	in %	24.1	30.0	11.1	–51.3%
EBITDA margin	in %	12.3	11.1	8.9	8.9
EBITDA excl. costs for EOP	CHF million	63.8	43.2	31.4	n/a
Growth	in %	47.7	37.4	n/a	n/a
EBITDA margin	in %	17.3	13.2	10.0	n/a
Operating profit (EBIT)	CHF million	17.9	12.5	–4.4	–27.7
Growth	in %	43.5	n/a	n/a	n/a
Operating margin	in %	4.9	3.8	n/a	n/a
Annual result	CHF million	20.9	9.7	–14.0	–35.3
Net profit/(-loss)-margin	in %	5.7	3.0	n/a	n/a
Net cash/(net debt)	CHF million	25.8	52.6	41.2	–63.3
Net Working Capital[2]	CHF million	137.0	122.2	104.7	132.9
As % of net sales		37.3	37.3	33.3	47.0
Total assets	CHF million	477.4	430.6	464.1	477.1
Equity	CHF million	316.3	353.5	373.7	327.3
Equity ratio	in %	66.3	82.1	80.5	68.6
Enterprise Value (EV)[3]		497.4	255.6	113.2	101.8
Average capital employed[4]	CHF million	327.8	301.4	384.0	412.8
Return on capital employed (average) ROCE[5]	in %	19.4	14.3	8.2	6.1
Cash flow from operating activities	CHF million	54.3	29.4	57.7	45.4
As % of net sales		14.8	8.9	18.4	16.1
Free cash flow	CHF million	38.4	27.7	44.7	12.3
As % of net sales		10.5	8.4	14.2	4.4
Investments in PPE and intangible assets	CHF million	22.8	13.5	13.0	33.1
As % of net sales		6.2	4.1	4.1	11.7
Depreciation and amortization/impairment	CHF million	27.4	24.1	32.5	48.8
As % of net sales		7.5	7.3	10.3	17.2
Employees[6]	Number	832	715	696	823
Change vs. previous year	%	16.4	2.7	–15.4	–0.4
Sales per employee	CHF	442 012	458 874	451 700	343 864
Change vs. previous year	%	–3.7	1.6	31.4	–1.8

[1] 2009/2010 IFRS, from 2011 Swiss GAAP FER
[2] Calculation of net working capital: Trade Receivables + Inventories – Trade Payables
[3] Calculation of Enterprise Value: EBITDA excl. costs for Equity Ownership Plan * EBITA margin * 45; calculation EV 2012: CHF 63.8 million *(0.173*45) = CHF 497 million
[4] Calculation of capital employed: PPE + Intangible Assets + Net Working Capital
[5] Calculation ROCE: EBITDA excl. costs for EOP in relation to average capital employed over 12 months.
[6] Year-end values

Stock market data

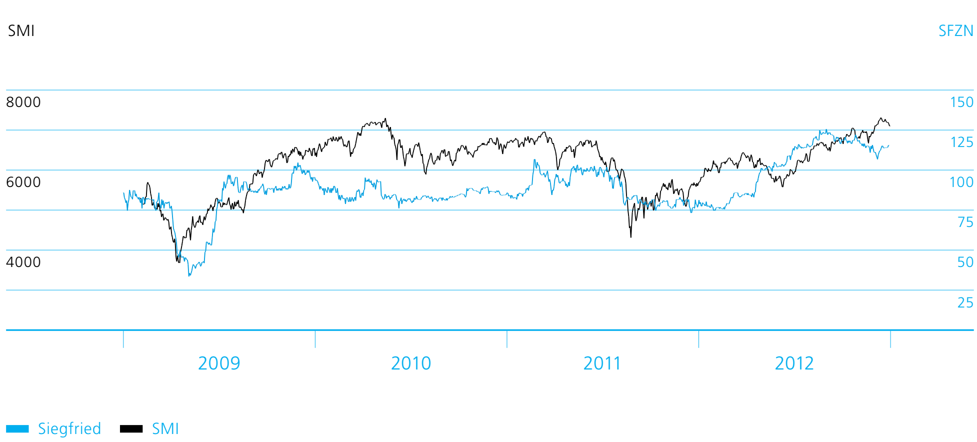
			2012	2011	2010	2009	2008
Registered shares nom. CHF 2			3 800 000	3 800 000	2 929 410	2 800 000	2 800 000
Share capital		CHF million	7.6	7.6	5.9	5.6	5.6
Gross dividend per registered share[1]		CHF	1.20	1.00	0	0	2.10
Total dividend paid		CHF	4 560 000	3 800 000	–	–	5 880 000
Market prices registered share	high	CHF	122.0	110.0	102.0	107.0	183.0
	low	CHF	83.7	80.0	86.1	54.4	84.0
Year-end		CHF	114.3	89.8	90.5	93.5	91.0
Dividend yield per registered share[2]		%	1.0	1.3	0	0	2.5
Earnings per share – EPS[3]		CHF	5.76	2.64	–1.25	–12.79	–27.02
Consolidated operating cash flow per registered share[3]		CHF	15.0	8.0	16.5	16.5	8.0
Consolidated equity and reserves per registered share[3]		CHF	87.3	96.3	110.6	118.7	127.0
P/E ratio (year-end)[2]			20	34	n/a	n/a	n/a
Market capitalization at year-end[3]		CHF million	413	329	344	262	255

[1] For 2012 proposal to the General Meeting
[2] Calculated on the basis of year-end share price
[3] Calculated on the weighted average number of shares outstanding, deducting 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, 2009 to December 31, 2012



Shareholder Base

As of December 31, 2012, 2 099 shareholders were registered in the Siegfried Holding AG share registry, holding 74.43% of the total share capital. The share holdings include:

Number of shareholders	Shareholders	%	Shares	%
1 – 10	258	9.15	1 588	0.04
11 – 100	895	31.74	48 376	1.27
101 – 1000	736	26.10	240 039	6.32
1001 – 10 000	168	5.95	527 876	13.89
10 001 – 100 000	38	1.35	1 047 205	27.56
100 001 – 1 000 000	4	0.14	963 306	25.35
	2 099	74.43	2 828 390	74.43
Treasury shares and non-registered shares	n.a	n.a	971 610	25.57
Total shares			**3 800 000**	**100.00**

The equity holdings by segment as of December 31, 2012 include:

Major shareholders as of December 31, 2012 divided into segments	Shareholders		Shares	%
Important shareholders (over 3%)	4		1 126 945	22.71
Private individuals	1 917		812 682	21.39
Institutional shareholders	178		888 763	30.33
Treasury shares and non-registered shares	n.a		971 610	25.57
	n.a		**3 800 000**	**100.00**

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.

Siegfried Holding strictly observes the mandatory disclosure policies of the SIX Swiss Exchange (ad hoc notification) regarding events that could affect the stock price.

Calendar

In 2013, the company will inform about the course of business as follows:

March 5th, 2013:
Publication of results for the 2012 business year at a media conference in Zofingen and at a media and analyst conference in Zurich

April 18th, 2013:
General Meeting of Shareholders

August 27th, 2013 (tentative):
Publication of semi-annual figures for 2013

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 2013 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Siegfried.