Half-Year Report 2004

Siegfried Holding

	1st Half-Year 2004	1st Half-Year 2003	Difference	Change in %
Net sales (CHF m.)	172.3	178.9	- 6.6	- 3.7
Net income (CHF m.)	15.8	31.5	- 15.7	- 49.8
Operating income (CHF m.)	20.1	42.8	- 22.7	- 53.0
Net cash flow from operations (CHF m.)	14.6	- 8.0	22.6	n.a.
Capital expenditures (CHF m.)	13.6	36.4	- 22.8	- 62.6
Personnel expenditures (CHF m.)	55.9	62.8	- 6.9	- 11.0
Employees [1] (Number)	962	1 056	- 94	- 8.9
	June 30, 2004	**December 31, 2003**		
Equity (CHF m.)	396.9	399.3	- 2.4	- 0.6
Total assets (CHF m.)	647.6	644.9	2.7	0.4
Shareholder’s equity (Percent)	61.3	61.9		

[1] full-time employees June 30

The Siegfried Group is a global vendor of pharmaceuticals and natural products with locations in Switzerland, Germany and the United States. At the end of 2003, Siegfried employed about 1,000 people with annual sales of CHF 366.2 million. Siegfried Holding AG is listed on the Swiss Exchange (SWX: SFZN).

The Siegfried Division, which comprises the Group's pharmaceutical activities, is organized in three business units. The Siegfried Actives business unit develops and manufactures active pharmaceutical ingredients, their intermediates, and standard products. The Siegfried Generics business unit produces generics. Siegfried Biologics develops and manufactures biotechnology-based pharmaceutical active substances.

The Sidroga Division develops and markets high-quality, plant-based natural medicines and wellness products, particularly medicinal and wellness teas marketed under the Sidroga brand.

The Siegfried Group achieved sales of CHF 172.3 million during the first half of 2004, a 2.4% drop measured in local currencies and 3.7% in Swiss francs. Thanks to the successful launch of a major new product, the Siegfried Generics Business Unit (part of the Siegfried Division) almost fully compensated for the loss in sales of the Siegfried Actives Business Unit.

During this time, operating profits of CHF 20.1 million were generated, a downturn of 53% (2003 = CHF 42.8 million) when compared to the excellent results of a year ago. A smaller EBIT compared to the same period in 2003 – the best six month result ever posted by the company – resulted from unabsorbed costs in the chemical pharmaceutical production, due to lower capacity utilization, and CHF 10 million in inventory reduction. Further, the operating results for the first half of 2003 included a one-time licensing income of CHF 9 million.

To assure profitability and sustainable savings of CHF 25 million per year, Siegfried will carry out a comprehensive restructuring of the pharmaceutical business (Siegfried Division). A headcount reduction (130 positions) is also part of these efforts.

The Siegfried Group during the first half 2004

The Siegfried Division

Accounting for 92% of Group sales, the Siegfried Division achieved sales of CHF 158.9 million, a reduction of 2% measured in local currencies and 3.7% measured in Swiss Francs. The substantial loss in sales in custom manufacturing (Siegfried Actives Business Unit) was almost wholly compensated by the strong growth posted by the Siegfried Generics Business Unit. Revenues doubled during the first half of 2004 thanks to the successful European launch of an important new generic product during the first six months of 2003. While still relatively small, the Siegfried Biologics Business Unit also achieved notable growth in sales.

Compared to the same period in 2003, the operating results for 2004 dropped by 48.4% to CHF 22 million (2003 = CHF 42.6 million). The downturn in operating profits is due to lower capacity utilization of the chemical production facilities. In addition, the inventory levels were reduced by CHF 10 million. Finally, a one-time licensing income of CHF 9 million was also booked during the first six months of 2003.

Because of the unsatisfactory capacity utilization levels, management implemented a comprehensive restructuring of the Siegfried Division to assure mid-term profitability. The whole Siegfried Division – including Siegfried Actives, Siegfried Generics and Corporate Services – is being analyzed.

Douglas C. Günthardt, Siegfried Division CEO explains: «Our goal is to identify cost savings and efficiency improvement potential across the whole Division. This will enable us to reach a sustainable and more cost-effective performance level.»

McKinsey & Company has been chosen to support Siegfried management during the analysis and restructuring phases. The capacity of the chemical pharmaceutical production organization will be targeted to meet production levels forecast for 2006. The targeted, sustainable annual savings are set at CHF 25 million. Approximately 50% of these savings will be achieved through a headcount reduction in Zofingen and Pennsville / USA, which corresponds to 130 positions. Company management expects to achieve half of this reduction through layoffs.

The Sidroga Division

Sales for the Sidroga Division reached CHF 13.4 million, a drop of 4% when compared to last year, also resulting in an operating loss of CHF 1.9 million. While revenues in Switzerland developed positively, the German market suffered from health reform legislation in effect since the beginning of the year – leading to substantially less customers in the pharmacies. Peter Degen, Sidroga Division CEO, states that the situation has normalized during the second quarter.

The Siegfried Group

Measures were implemented already last year to counter the reduced utilization of the Siegfried Division's chemical production capacities; this has affected key financial results of the Siegfried Group. Operating cash flow has improved from CHF -8 million during the first half year 2003 to CHF 14.6 million for the same period in 2004. Investment costs during the first half year 2004 were reduced to CHF 13.4 million, down from CHF 42.2 million in 2003. The number of employees dropped from 1,056 in mid-2003 to a total of 962 a year later, saving the company approximately CHF 7 million in personnel costs in the first half year of 2004.

Outlook

The Siegfried Division expects lower revenues and operating profits for the second half of 2004. The Siegfried Generics Business Unit has already realized a large part of this year's revenue goals, thanks to the successful launch of a major new product. Inventory reduction will continue for the rest of the year.

Restructuring costs of CHF 15 million will accrue during the second half of the year. Of this, CHF 9 million are personnel costs, with the remainder consisting of depreciation costs, product transfer and project costs. A major new product was brought into chemical production at Siegfried Actives at the beginning of 2004 and the Division's pipeline remains solid for the mid-term. The development department in Zofingen is booked solid, and Division management expects this to contribute to positive revenue growth for custom manufacturing by the second half of 2005. Thanks to the reorganization measures, operating results will improve in 2005.

Management of the Sidroga Division expects better results during the remainder of 2004 because of the ongoing normalization of the German market, and tea sales that are generally stronger during the second half of the year. Overall revenues are expected to be slightly higher than in the previous year – with positive operating results.

In 2004, revenue and operating profits for the Siegfried Group will be slightly lower. EBIT will remain above 10% (before reorganization costs). Based on these results, the Siegfried Group expects a consolidated net profit of CHF 15-20 million. A return to growth is expected by the second half of 2005.

Net Sales to Third Parties

Segments	1st Half-Year 2004	1st Half-Year 2003		Change in %
	CHF m.	CHF m.	CHF	Local currency
Siegfried	158.9	164.9	- 3.7	- 2.0
Sidroga	13.4	14.0	- 4.0	- 6.2
Group	**172.3**	**178.9**	**- 3.7**	**- 2.4**

Operating Results

Segments	1st Half-Year 2004	1st Half-Year 2003		Change
	CHF m.	CHF m.	CHF m.	in %
Siegfried	22.0	42.6	- 20.6	- 48.4
Sidroga	- 1.9	0.2	- 2.1	
Group	**20.1**	**42.8**	**- 22.7**	**- 53.0**

Consolidated Income Statement

In CHF m.

	1st Half-Year 2004	1st Half-Year 2003
Net sales	172.3	178.9
Cost of goods sold	- 122.4	- 110.0
Gross profit	**49.9**	**68.9**
Gross profit as a percentage of net sales	**29.0**	**38.5**
Other operating income	3.3	9.9
Operating expenses	- 33.1	- 36.0
Operating income	**20.1**	**42.8**
Operating income as a percentage of net sales	**11.7**	**23.9**
Financial expenses, net	- 1.7	- 1.4
Income before taxes	**18.4**	**41.4**
Income taxes	- 2.4	- 10.0
Minorities share of profit	- 0.2	0.1
Net income	**15.8**	**31.5**
Net income as a percentage of net sales	**9.2**	**17.6**
Earnings per share (in CHF)	**5.69**	**11.58**

Consolidated Balance Sheet

In CHF m.

Assets	June 30, 2004	December 31, 2003
Non-current assets	404.0	404.4
Current assets	243.6	240.5
Total assets	**647.6**	**644.9**

Liabilities		
Shareholder's equity	396.9	399.3
Minorities	0.4	0.4
Non-current liabilities	198.7	156.8
Current liabilities	51.6	88.4
Total liabilities	**647.6**	**644.9**

Consolidated Cash Flow Statement

In CHF m.

Cash flow from operating activities	1st Half-Year 2004	1st Half-Year 2003
Net income	**15.8**	**31.5**
Depreciation	15.9	14.4
Provisions and other positions	- 3.9	7.1
Operating cash flow before changes in working capital	**27.8**	**53.0**
Change in working capital ./. interest and taxes paid	- 13.2	- 61.0
Net cash flow from operating activities	**14.6**	**- 8.0**
Net cash flow from investing activities	**- 13.4**	**- 42.2**
Net cash flow from financing activities	**- 6.8**	**28.9**
Net increase (decrease) in cash	**- 5.6**	**- 21.3**
Net effect of currency translation on cash	0.0	- 0.1
Cash at January 1	**14.4**	**31.6**
Cash at June 30	**8.8**	**10.2**

Shareholders' Equity

In CHF m.

	1st Half-Year 2004	1st Half-Year 2003
At January 1	**399.3**	**367.7**
Dividend	- 13.9	- 14.0
Semi-annual income	15.8	31.5
Change of treasury stock	- 3.6	3.6
Translation difference	- 0.1	- 2.3
Gain/loss on cash flow hedges	- 0.6	0.1
Losses applicable to minorities		- 0.2
At June 30	**396.9**	**386.4**

Market Prices

In CHF

		2000	2001	2002	2003	2004
Registered share	highest	1 620	1 570	172.5	176.0	171.5
	lowest	1 289	1 075	131.0	139.0	151.8
	at year-end	1 480	1 320	154.0	156.0	
	at June 30				160.0	156.0

Most important exchange rates

Balance sheet	Final rates	Final rates	Change
Currency	June 30, 2004	December 31, 2003	in %
1 USD	1.2500	1.2450	0.4
1 EUR	1.5220	1.5590	- 2.4

Income statement	Average rates	Average rates	Change
Currency	1st Half-Year 2004	1st Half-Year 2003	in %
1 USD	1.2592	1.3457	- 6.4
1 EUR	1.5543	1.4910	4.2

Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the incorporated International Accounting Standard 34 Interim Financial Reporting (IAS 34), issued by the International Accounting Standards Board (IASB). The accounting policies are described in detail in Siegfried's annual report 2003 and were consistently applied in the half-year report.

Revised accounting standards

As of January 1, 2004, the Siegfried Group has revised its Accounting Policy for Intangible Assets and for Impairment of Assets (IFRS 3, IAS 36 / 38 rev.). Since the beginning of 2004 Goodwill from acquisitions and Intangible Assets with indefinite useful lives are no longer amortized. In each reporting period, these items are reviewed for impairment. Following the current policy, the value of these items is additionally assessed when, based on certain events or changed circumstances, there are indications that these assets may be impaired.

Income taxes

Income tax expense is calculated by using the expected local tax rate of each Group company for the year. Several Group companies in countries with tax rates above the Group average tax rate reported losses in the first half-year 2004. As a result, the Group tax rate is lower when compared to the previous year.

Consolidated Cash Flow Statement

Measures were already implemented last year to counter the foreseeable drop in utilization of the Siegfried Division's Chemical Production capacity, which improved cash flow. For 2004, the operating cash flow improved from CHF -8 million a year ago, to CHF 14.6 million. Inventory was reduced by CHF 10 million, and receivables increased by CHF 17.9 million due to a delayed customer payment (booked in July). Investment costs during the first half year 2004 were reduced to CHF 13.4 million, down from CHF 42.2 million in 2003. The «Avanti» program, begun in 2001 was completed last year.

Subsequent Events

Reorganizing the Pharmaceutical Business (Siegfried Division) Management expects restructuring costs of CHF 15 million, which will accrue during the second half of the year. CHF 9 million are personnel costs, with the remainder consisting of depreciation costs for unused systems and project costs.

Publisher's Notes

This Half-Year Report is also
available in German.

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