Siegfried

Our Competencies. Your Benefit.

Half-Year Report 2014

Siegfried continued to improve profitability for the first six months of the year, despite lower sales. Implementation of strategic projects is on schedule and will clearly improve the company's competitiveness.

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Key figures

	1st Half-Year 2014	1st Half-Year 2013	Change CHF (LC)
Net sales (million CHF)	165.1	196.7	– 16.0% (– 14.0%)
Gross profit (million CHF)	42.9	49.6	– 13.6%
Gross profit margin (%)	26.0%	25.2%	
EBITDA (million CHF)	28.4	27.9	1.7%
EBITDA-margin (%)	17.2%	14.2%	
EBIT (operating profit) (million CHF)	16.6	15.6	6.9%
EBIT-margin (%)	10.1%	7.9%	
Net profit (million CHF)	18.8	18.5	1.5%
Net profit-margin (%)	11.4%	9.4%	
Earnings per share (EPS)	5.01	5.16	– 3.0%
Diluted earnings per share (EPS)	5.01	4.93	1.6%
Cash flow from operating activities (million CHF)	11.8	30.0	– 60.6%
Investment in property, plant and equipment and intangible assets (million CHF)	43.0	21.3	102.4%

	June 30, 2014	December 31, 2013	Change
Equity (million CHF)	375.4	362.4	3.6%
Total assets (million CHF)	549.5	537.8	2.2%
Equity as a percentage of total assets	68.3%	67.4%	
Number of employees (FTEs)	984	917	7.3%

2014 Half-Year Report of Siegfried Holding AG

Highlights

Increased profitability
In the first six months of 2014, despite lower sales, Siegfried reached an EBITDA margin of 17.2% and an EBIT margin of 10.1%. This is a clear increase compared to the previous year's period. This increase is a result of the cost variabilization as part of the "Tranform" strategy.

Net profit continuously high
Net profit for the first six months of 2014 amounted to CHF 18.8 million, representing earnings per share of CHF 5.01 (2013 half-year: CHF 4.93).

Sound financing
Despite high investments for ongoing strategic projects, Siegfried's finances are sound, and the company holds the necessary financial means to continue with the implementation of its strategy.

Investments in competitiveness
Strategic projects currently being implemented are on schedule. The new production facility in Nantong, China, will be put into operation in the second half of 2014 and will clearly improve Siegfried's competitiveness. In Zofingen, construction of a new production facility has begun. From mid-2015, the new facility will replace several older buildings that can no longer be run efficiently.

Growing pipeline
Siegfried was very successful in the market in the first half-year 2014. The pipeline clearly improved both quantitatively and qualitatively. Thanks to new technologies and improved competitiveness, the customer portfolio is also continuing to grow.

Comparable development in second half of 2014 expected
Siegfried expects sales in local currencies to remain comparable and operating margins to improve in the second half of 2014.

Continued growth of Siegfried’s profitability

- Sales of CHF 165.1 million represent a 16.0% decrease (14.0% in local currencies) compared to the very positive sales reported for the first half-year 2013, especially in the business segment Drug Products.
- With a 17.2% EBITDA margin and a 10.1% EBIT margin, the previous year’s values of 14.2% and 7.9% respectively were exceeded thanks to a consequent cost variabilization.
- Net profit for the first six months of 2014 amounted to CHF 18.8 million, representing earnings per share of CHF 5.01 (2013 half-year: CHF 4.93).
- Despite higher investments, debt and available cash balance each other. Construction activity in Nantong and Zofingen is progressing according to schedule.

18.8

million Swiss francs net profit in the first half-year 2014.

CEO Rudolf Hanko: “We are on track concerning strategy implementation. Our margins are in the target range. Thanks to the expansion of our technological basis and the new production facilities, our competitiveness continues to improve and we create the prerequisites for further growth.”

Several factors with a negative effect on sales development

Total sales for the half-year amounted to CHF 165.1 million, representing a decline of 16.0% compared to the prior year’s period, in which sales were very strong, especially in the business segment Drug Products. The decrease against the second half-year 2013 only amounted to 7.4%. As announced earlier, the development of the US dollar and raw material price fluctuations as well as the introduction of a new technology during the period under review exerted a negative influence on sales development.

While business with active pharmaceutical ingredients developed positively from a volume perspective, sales declined by 6.4% compared to the first half of 2013 to CHF 126.4 million. Exclusive synthesis contributed 57% toward sales in this division, and controlled substances 43%.

Sales of drug products, representing about one quarter of total sales, declined by 37.2% compared to the first six months of 2013. This is due mainly to the fact that several customers were less successful with their tender business compared to the previous year.

Cost variabilization improves profitability

Profitability continued to grow as the result of cost variabilization in the context of the "Transform" strategy as well as consistent cost management and efficiency raising measures. EBITDA grew by 1.7% compared to the previous year's period to CHF 28.4 million, representing an EBITDA margin of 17.2%, while EBIT increased by 6.9% to CHF 16.6 million. Net profit reported for the first six months of 2014 amounted to CHF 18.8 million or CHF 5.01 per share (first half 2013: CHF 4.93).

1.7 %

EBITDA growth compared to the previous year's period.

Despite high investments, Siegfried's finances continue to be sound. For current investment and strategic projects some CHF 80 million was taken up of the existing syndicated loan provided by a Swiss consortium of banks. Siegfried holds the equivalent amount in cash and treasury shares with a value of CHF 30 million.

On-schedule progress of strategic projects

Strategic projects currently being implemented by the Siegfried Group are on schedule. In Nantong, China, construction of Siegfried's new facility has been basically completed. The production plant has been installed and is undergoing test runs. While initial validations will be performed in the second half of the current year, commercial production will start at the beginning of 2015.

2015

commercial production in Nantong will commence. Initial validations will be performed in the second half of the current year.

In Zofingen, construction of a new production facility to increase efficiency has begun. From mid-2015, the new facilities will replace several older buildings that can no longer be run efficiently. Thanks to comparable technical designs, product transfers between Zofingen and Nantong will in the future be streamlined. The new configuration will clearly improve Siegfried's competitiveness.

In Pennsville, a new spray dryer was installed. This attractive technology is increasingly in demand from the market, and the new dryer will further enhance the Pennsville site.

10%

more requests were processed in the first half-year 2014 compared to the previous half-year.

Outstanding pipeline

Siegfried was successful in acquiring projects in the period under review. The API pipeline clearly improved in the first half-year 2014, both in terms of quantity and quality. The product portfolio and the customer portfolio are growing progressively. In the period under review, Siegfried acquired three new pharma customers and three new projects for its spray-drying facility. Moreover, in the first six months of 2014, Siegfried further strengthened its position in the veterinary field by means of further projects.

Interest for Siegfried's project portfolio is growing steadily. In the first half-year, requests grew by 10% compared to the previous half-year. The number of quotes prepared by the company for opiate derivatives is considerable. The same is true for sterile filling, where five new customers have been won. Significant customer decisions are expected in the second half-year of 2014 for Siegfried's combined portfolio of active pharmaceutical ingredients and oral applications.

Outlook

Siegfried expects sales in local currencies to remain comparable and operative margins to improve in the second half of 2014.

Consolidated Balance Sheet

In 1 000 CHF	Notes*	June 30, 2014	December 31, 2013
Assets			
Non-current assets			
Property, plant and equipment		243 457	208 407
Intangible assets		8 981	9 565
Investments in associated companies and joint ventures		556	580
Financial and other non-current assets		93	158
Employer contribution reserves		8 389	8 466
Deferred tax assets		16 888	13 200
Total non-current assets		**278 364**	**240 376**
Current assets			
Inventories		100 933	99 122
Trade receivables		71 507	61 966
Other current assets		14 001	3 916
Accrued income		5 982	4 497
Current income taxes		42	42
Derivative financial instruments		–	512
Cash		78 631	127 341
Total current assets		**271 096**	**297 396**
Total assets		**549 460**	**537 772**
Liabilities and equity			
Equity			
Share capital	4	8 300	7 600
Treasury shares		–24 452	–33 421
Capital reserves		85 742	61 479
Retained earnings		305 852	326 775
Total equity		**375 442**	**362 433**
Non-current liabilities			
Non-current financial liabilities	5	58 641	59 700
Non-current provisions		10 689	10 687
Deferred tax liabilities		3 769	3 799
Other non-current liabilities		1 717	2 137
Non-current pension liabilities		88	163
Total non-current liabilities		**74 904**	**76 486**
Current liabilities			
Trade payables		38 233	30 952
Other current liabilities	7	8 958	23 232
Accrued expenses		22 723	14 905
Other current financial liabilities	5	19 963	17 235
Derivative financial instruments		330	258
Current pension liabilities		232	612
Current provisions		8 425	11 409
Current income tax liabilities		250	250
Total current liabilities		**99 114**	**98 853**
Total liabilities		**174 018**	**175 339**
Total liabilities and equity		**549 460**	**537 772**

* The notes on pages 13–16 are an integral part of the Group Financial Statements.

Consolidated Income Statement

In 1 000 CHF	Notes*	1st Half-Year 2014	1st Half-Year 2013
Net sales		**165 136**	**196 662**
Cost of goods sold		– 122 266	– 147 043
Gross profit		**42 870**	**49 619**
Marketing and sales costs		– 4 625	– 4 365
Research and development costs		– 11 207	– 12 780
Administration and general overhead costs		– 11 627	– 18 094
Other operating income		1 242	560
Share of results of associated companies		– 12	626
Operating result		**16 641**	**15 566**
Financial income		118	96
Financial expenses		– 1 686	– 1 389
Exchange rate differences		289	636
Profit before income taxes		**15 362**	**14 909**
Income taxes	8	3 443	3 616
Net profit		**18 805**	**18 525**
Earnings per share (CHF)		5.01	5.16
Diluted earnings per share (CHF)		5.01	4.93

* The notes on pages 13 – 16 are an integral part of the Group Financial Statements.

Condensed Consolidated Statement of Cash Flows

In 1 000 CHF	Notes*	**1st Half-Year 2014**	1st Half-Year 2013
Net profit		**18 805**	**18 525**
Adjustments:			
Depreciation and impairment of PP&E and Intangibles		11 770	12 372
Financial result		1 279	657
Other non-cash items		–4 986	1 782
Cash flow from operating activities before change in net current assets		**26 868**	**33 336**
Change in net current assets and other items		–15 047	–3 312
Cash flow from operating activities		**11 821**	**30 024**
Purchase of property, plant and equipment and intangible assets		–43 014	–21 256
Proceeds from disposal of property, plant and equipment		302	109
Acquisition of group companies	7	–12 832	–
Other cash flow from investing activities		–12	5
Cash flow from investing activities		**–55 556**	**–21 142**
Increase in financial liabilities, net	5	1 668	4 228
Other changes from financing activities		–1 468	–1 058
Purchase/disposal of treasury shares, net		1 105	–3 811
Dividend to the shareholders of Siegfried Holding AG		–5 931	–4 284
Cash flow from financing activities		**–4 626**	**–4 925**
Net change in cash		**–48 361**	**3 957**
Cash at 1.1.		127 341	73 310
Net effect of exchange rate changes on cash		–349	908
Cash at 30.6.		78 631	78 175

* The notes on pages 13–16 are an integral part of the Group Financial Statements.

Consolidated Statement of Changes in Equity

In 1 000 CHF	Share capital	Treasury shares	Capital surplus and legal reserves	Value fluctuations of financial instruments*	Accumulated profits*	Cumulative translation adjustments*	Total equity
1st Half-Year 2014							
As of January 1, 2014	**7 600**	**–33 421**	**61 479**	**132**	**397 292**	**–70 649**	**362 433**
Net profit	–	–	–	–	18 805	–	18 805
Changes in financial instruments				–265			–265
Currency translation differences	–	–	–	–	–	–857	–856
Dividends	–	–	–5 931	–	–	–	–5 931
Increase in capital	700	–	30 194	–	–	–	30 894
Employee share plan	–	9 967	–	–	–40 708	–	–30 741
Change in treasury shares		–998			2 102	–	1 104
As of June 30, 2014	**8 300**	**–24 452**	**85 742**	**–133**	**377 490**	**–71 505**	**375 442**
1st Half-Year 2013							
As of January 1, 2013	**7 600**	**–20 442**	**65 762**	**–20**	**331 466**	**–68 014**	**316 351**
Net profit	–	–	–	–	18 525	–	18 525
Changes in financial instruments	–	–	–	–41	–	–	–41
Change in equity from associated companies	–	–	–	–	475	–	475
Currency translation differences	–	–	–	–	–	562	562
Dividends	–	–	–4 284	–	–	–	–4 284
Employee share plan	–	–	–	–	3 508	–	3 508
Change in treasury shares	–	–1 996	–	–	823	–	–1 173
As of June 30, 2013	**7 600**	**–22 438**	**61 478**	**–61**	**354 797**	**–67 452**	**333 924**

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

The share capital of Siegfried Holding AG increased from CHF 7.6 million to CHF 8.3 million. It is divided into 4 150 000 registered shares each with a nominal value of CHF 2 (2013: 3 800 00 registered shares) see Note 4.

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

Notes to the Half-Year Report

1. Accounting principles

Scope of consolidation

This Half-Year Report includes the unaudited half-year consolidated financial statements of Siegfried Holding AG, which is domiciled in Switzerland, and its subsidiaries for the reporting period ended June 30, 2014 (1st half-year 2014). The half-year consolidated financial statements have been drawn up in accordance with Swiss GAAP FER 12 "Interim reporting" and should be read in conjunction with the Consolidated Financial Statements for the financial year ended December 31, 2013. The accounting principles are set out in detail in the Annual Report 2013 of the Siegfried Group and, with the exception of the change described below, applied unchanged for the half-year financial statements. The half-year consolidated financial statements were approved by the Board of Directors on August 19, 2014.

Information about the Group

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

2. Changes in accounting principles

Swiss GAAP FER 31 – Financial reporting standard for listed companies

The supplementary Financial Reporting Standard for listed companies will become effective at January 1, 2015. Earlier application is permitted. It deals with the initial adoption of Swiss GAAP FER, share-based payments, businesses being discontinued, earnings per share, income taxes, financial obligations, segment reporting and interim reporting. The introduction of the new Financial Reporting Standard does not have a significant impact on the results and disclosure of the Siegfried Group, because the new requirements are already applied except for the tax rate reconciliation.

Swiss GAAP FER Framework concept – Swiss GAAP FER 3 – Swiss GAAP FER 6

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

3. Most important currency translation rates

Balance Sheet

Closing rates	June 30, 2014	December 31, 2013
1 USD	0.891	0.888
1 EUR	1.216	1.226
100 RMB	14.354	14.669

Income Statement

Average rates	1st Half-Year 2014	1st Half-Year 2013
1 USD	0.891	0.937
1 EUR	1.222	1.230
100 RMB	14.515	15.365

4. Capital increase

In March 2014 in connection with the allocation of the Equity Ownership Plan shares the capital was increased out of conditional capital by 350 000 shares. This resulted in a share capital increase by CHF 0.7 million to CHF 8.3 million with a total of 4 150 000 shares each with a nominal value of CHF 2.

At the General Meeting held on March 26, 2014 the creation of new conditional capital of CHF 420 000 to create 210 000 shares to serve the Long Term Incentive Plan (LTIP) was approved. The remaining conditional capital from the mandatory convertible bond, which was fully converted in 2011, has been cancelled in accordance with the resolution of the General Meeting.

Conditional capital (number of shares)	December 31, 2013	Change	June 30, 2014
Mandatory Convertible Note (MCN)	50 000	–50 000	–
Equity Ownership Plan (EOP)	350 000	–350 000	–
Long Term Incentive Plan (LTIP)	–	210 000	210 000
Total	**400 000**	**–190 000**	**210 000**

5. Financing

In March 2014 Siegfried drew down from the strategic line provided by the bank syndicate a further tranche in the amount of USD 15.0 million. Further, in June 2014 USD 13.4 million was repaid to the syndicate. At mid-year 2014 the bank debt amounts to CHF 78.6 million.

6. Share-based payment

In March 2014 the Equity Ownership Plan shares were allocated. In total 398 756 shares were allocated, whereby 350 000 shares were sourced from conditional capital and 48 756 shares from treasury shares.

In 2014 Siegfried introduced a Long Term Incentive Plan (LTIP) for the members of management. At the beginning of a vesting period of three years the plan participants acquire a defined number of Performance Share Units (PSU). After the three year vesting period the plan participants are allocated a certain number of shares per acquired PSU. Depending on the extent to which the objectives are achieved, between 0 and 2 shares per PSU will be allocated. In the plan the compound annual growth rate (CAGR) on total shareholder return (TSR) and two operational goals (EBITDA and ROCE) have been defined as targets. After allocation the shares are at the free disposal of the plan participant and are not subject to a restriction period.

The valuation of the PSU and the related cost for Siegfried is undertaken at the beginning of the vesting period by an external company, specialised in the valuation of option and share schemes. In the first half-year a cost of CHF 0.7 million has been recognized for the LTIP.

7. Earn-out

In March 2014 the earn-out in the amount of USD 14.4 million (CHF 12.8 million) was paid to the former owners of Alliance Medical Products Inc. The associated accrual was released. Accordingly all obligations in connection with the acquisition of Alliance Medical Products inc. have been satisfied.

8. Taxes

The profit estimates of subsidiaries, which have available tax loss carry forwards, have been revised and tax effects of loss carry forwards have been recognized accordingly, which in the first half of 2014 led to a positive tax result.

9. Seasonality

The operating results are subject to fluctuations that are not seasonable in nature.

10. Contingent liabilities

In comparison with the contingent liabilities at December 31, 2013 in the period under review there have been no changes.

11. Events after the balance sheet date

There are no material events after the balance sheet date.

Stock market data

			2014	2013	2012	2011	2010
Market prices registered share	high	CHF	170.0	163.5	122.0	110.0	102.0
	low	CHF	157.6	109.3	83.7	80.0	86.1
Year-end (2014: 30.6.)		CHF	162.0	161.6	114.3	89.8	90.5

Cautionary statement regarding forward-looking statements

This Half-Year 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 forward-looking 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 outlook is not a profit forecast and should not be interpreted to mean that Siegfried's earnings or earnings per share for 2014 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Siegfried.

Publisher's note

This Half-Year Report is also
available in German,
being the original version.

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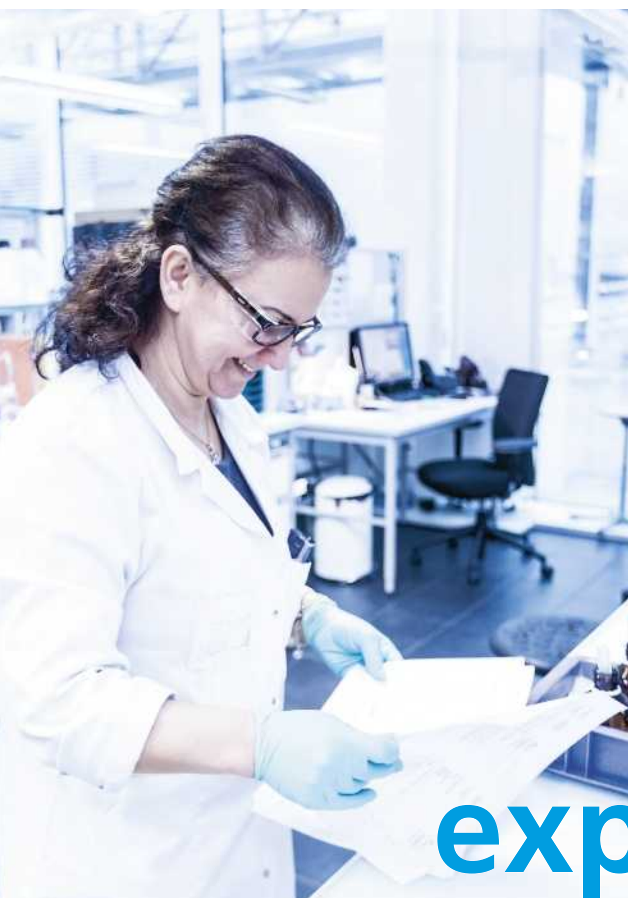

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