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INTERIM REPORT

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2017

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1 January to 30 June 2017  
(Swiss GAAP FER)

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## First half of 2017 – summary

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The half-year result of 2017 shows that the HOCHDORF Group has taken the right approach with its strategy of forward integration. In the first half of the year, the Pharmalys Group further increased its net sales and income figures. By contrast, the volumes in the Swiss Baby Care business declined slightly.

In the Dairy Ingredients Division, the product prices recovered to different extents. In the EU, milk fat prices climbed to a record high. However, the prices of milk protein powder and skimmed milk powder only increased moderately. As a whole, the market for milk mass products remained difficult. The development of milk powder speciality products continued. In the Cereals & Ingredients Division, Marbacher Ölmühle GmbH performed very well, achieving significant net sales growth. The activities for healthy products in the Kids' Food segment and for the purpose of launching the diabetic chocolate have been intensified.

In the first half of the year, HOCHDORF processed 377.6 million kg of milk, whey, cream, etc. (previous year: 415.9 million kg; -9.2 %) and sold a total of 111,948 tonnes of products (previous year: 125,604 tonnes; -10.9 %). The Group generated gross sales revenue of CHF 312.1 million (+12.1 %). Thanks to the Pharmalys income, the EBIT climbed to CHF 15.8 million (previous year: CHF 13.1 million). The EBIT margin amounted to 5.0 %, i.e. less than the communicated target range of 6.1 to 6.6 % for the year. Due to the wellfilled order books in the Baby Care Division, we are not adjusting this annual target.

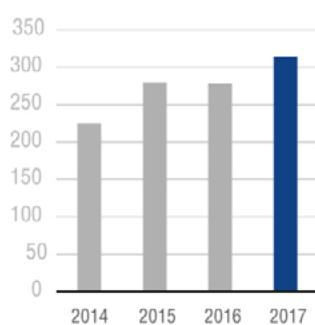
## Key figures – Annual Report (30 June)

Key figures	30.06.2017	30.06.2016	30.06.2015	30.06.2014
Processed milk and whey in tonnes	377,560	415,858	421,380	279,862
Products sold in tonnes	111,948	125,604	125,767	69,893
Total assets (in TCHF)	473,792	359,664	322,702	253,332
Equity ratio	56.76 %	55.03 %	47.01 %	41.30 %
Cash flow from operating activities (in TCHF)	-36,077	-17,047	-11,797	-12,483
Market capitalisation (in TCHF)	438,678	263,709	176,191	117,713
Share price as at 30.06. in CHF	305.75	183.80	152.00	130.50
Earnings per share in CHF, basic	4.83	7.65	3.59	6.97
Earnings per share in CHF, diluted	4.00	7.65	3.20	5.33
Staffing levels as at 30.06.	686	614	588	371

## Financial data (30 June)

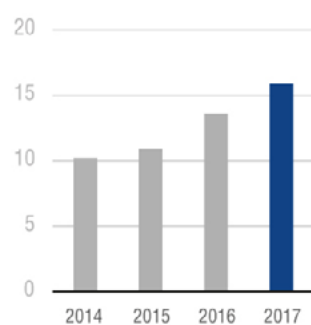
### Gross sales revenue (Turnover)

CHF Mio.



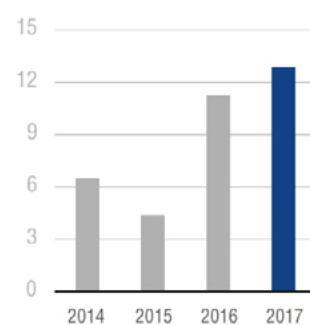
### EBIT

CHF Mio.



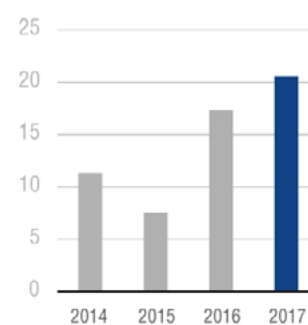
### Net profit

CHF Mio.



### Earned capital (cash flow)

CHF Mio.



## Market data (30 June)

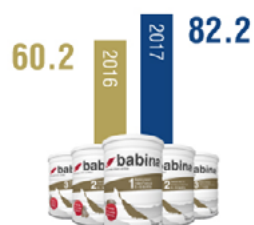
### Turnover Dairy Ingredients

CHF Mio.



### Turnover Baby Care

CHF Mio.



### Turnover Cereals & Ingredients

CHF Mio.



# Dear Shareholders

The strategy of forward integration and development of high value-added products is the right path to success for the HOCHDORF Group. This is clearly shown by the latest income figures. In the first half of 2017, we worked intensively on implementing this strategy.

In total, the HOCHDORF Group processed 377.6 million kg of milk, whey, cream and milk permeate (liquid quantity), slightly less than in the corresponding period in the previous year (415.9 million kg; -9.2 %). The substantial decline was primarily attributable to the foreign milk plants. Although the incoming liquid quantity in Switzerland was the same as in the previous year, less milk was processed. Year on year, the product volume sold also dropped 10.9 % to 111,948 tonnes (previous year: 125,604 tonnes).

## **Higher net sales, lower sales volume**

The HOCHDORF Group generated gross sales revenue of CHF 312.1 million (previous year: CHF 278.4 million; +12.1 %). The gross profit increased to CHF 79.3 million (25.3 % of production revenue) (previous year: CHF 70.7 million; 24.1 % of production revenue). Consolidated EBITDA increased to CHF 21.7 million, and EBIT to CHF 15.8 million.

Although the income was higher than in the previous year, it remained below our expectations. The higher income figures were mainly attributable to Pharmalys Laboratories SA. In the first half of the year, the income of HOCHDORF Swiss Nutrition Ltd suffered compared to the previous year from the lower export funding, the lower production volume of infant formula and margin losses especially in the Dairy Ingredients Division. The lower production volume of infant formula resulted mainly from the reduction of the delivery time from six months to three months and the temporary loss of quantities in Egypt and Libya. However, the order books for the second half of the year are well filled, and we expect a high plant utilisation. Further measures have been taken to improve results.

## **Pharmalys integration successfully started**

We are doing our best to ensure maximum efficiency of the integration. The continuing strong net sales and income growth of the Pharmalys Group show that our efforts are successful. The integration progressed especially well in the fields of IT and administration and has already been successfully completed in some areas.

## **Large investment in Sulgen**

In Sulgen, HOCHDORF is investing a substantial amount in a modern spray tower line for infant formula, an equally high-performance can line and a high-bay warehouse. The work on these important projects is progressing according to plan. As planned, the new lines are to go live in the first quarter of 2018. This major investment impacts the key figures of the cash flow statement as well as the current expenses. For example, we have already recruited a number of new employees who are now being trained in operating the systems. On the sales side, we intensified our efforts to gain new customers with the goal of filling the new capacities in Sulgen as quickly as possible.

## **Strategy in Uckermark defined**

Since the beginning of April 2017, Dr Peter Pfeilschifter has served as Managing Director of Uckermärker Milch GmbH, using his experience on behalf of the company's success. Meanwhile, the HOCHDORF strategy for the Prenzlau location has been determined, and the (production) processes there have been optimised. In July, we unfortunately had to announce the discontinuation of the curd business as of the end of October (for further information, please refer to section 5. Events after the balance sheet date in the notes to the consolidated half-year financial statements).

### Success story in Marbach

The investments in additional processing capacities and marketing measures at Marbacher Ölmühle GmbH have yielded a significant net sales increase of more than 30 %. The company is pursuing a niche strategy with special oils, which is currently successful. Moreover, it considers itself a specialist for healthy oil flours.

### Outlook

We expect the milk price and thus the corresponding product prices in the second half of the year to be higher than in the previous year. However, it is rather unlikely that we will be able to make up for the net sales shortfall of the first half of the year, as we expect the market for milk mass products to remain difficult. Therefore, we have decided to correct the projected annual gross sales revenue of CHF 635-670 million to CHF 610-650 million.

As of the end of the first six months, the EBIT margin in relation to the production revenue amounted to 5.0 %, i.e. less than the communicated target range of 6.1-6.6 % for the year. Owing to the well-filled order books in the Baby Care Division and the measures initiated for the purpose of improving the income figures, we do not adjust this EBIT margin forecast.

Kind regards from your BEST PARTNER  
HOCHDORF Holding Ltd



Dr Daniel Suter  
**Chairman of the Board of Directors**



Dr Thomas Eisenring  
**CEO**



**Dr Thomas Eisenring**  
CEO

**Dr Daniel Suter**  
Chairman of the Board of Directors

# Business areas

## Dairy Ingredients

The market for milk mass products has been and will continue to be demanding. Thus, we continued to push ahead with the development of milk powder specialities and process optimisation measures. The reorganisation of Uckermärker Milch GmbH with a local managing director has proved successful.

As a result of higher prices, the Dairy Ingredients Division achieved gross sales revenue of CHF 216.1 million in the first half of 2017 (previous year: CHF 204.3 million; +5.8 %). In total, the processed quantities (liquid quantity) of milk, cream, whey and milk permeate declined about 9 % to 377.6 million kg (previous year: 415.9 million kg). While the liquid quantities were reduced in Prenzlau, Germany, and in Medeikiai, Lithuania, they remained at the level of the previous year in Switzerland.

The international milk prices developed in various ways. Milk fat prices surged, reaching record levels in the EU. By contrast, the prices of milk protein and skimmed milk powder only increased moderately. The high stock levels of skimmed milk powder around the globe and the rather low prices for protein powder represented a challenge for HOCHDORF.

### Locations

At HOCHDORF Swiss Nutrition Ltd, the first half of the year was marked by a low milk inflow. However, thanks to the significantly increased processing of whey, the plant utilisation remained at a very high level. Reduced "Schoggi Law" funding, margin losses and too little B-milk for export products affected income. Therefore, a project was launched to improve profitability: Through a combination of price increases, portfolio adjustments and cost savings, we are seeking to achieve significantly better results as soon as possible. The integration of the condensed milk business, which we took over from Alicommerce SA as of 1 January 2017, is progressing well at the Hochdorf location.

The weak protein market and high milk prices, which could only be passed on to the market to a limited extent, greatly impacted the business of HOCHDORF Baltic Milk UAB. Under these conditions, we reduced the processed milk quantity as much as possible and optimised the production processes.

The record-high butter prices were beneficial for Uckermärker Milch GmbH to the extent that the butter could be produced from milk obtained from direct suppliers. It was difficult to purchase additional milk fat at competitive prices. The product and process development team worked intensively on specialty powders with higher added value. The reorganisation with Dr Peter Pfeilschifter as Managing Director on site quickly proved effective. In early July, we announced the closure of the curd production facility as of 31 October 2017. This decision was made due to the loss of commissioned orders of a large customer. The discontinuation of the curd business, which was no longer in line with Group strategy, had previously been discussed.

### Outlook

The market environment is still demanding. At all locations, we are focusing on the rapid rollout of the strategy and on the measures initiated to improve profit. Thanks to the improved milk prices in the EU, we expect the milk quantities to go up in the second half of the year. The bottom line is, however, that we expect the supply and demand to be more or less balanced, such that milk prices will only go up moderately.

## **Baby Care**

Thanks to the majority stake in the Pharmalys Group, gross sales revenue increased significantly. The collaboration with Pharmalys got off to a good and successful start. Initial brand registrations were submitted for the Chinese market.

Upon integration of the Pharmalys Group, the consolidated gross sales revenue in the first half of 2017 went up 36.5 % to CHF 82.2 million (previous year: CHF 60.2 million). As expected, the Pharmalys Group was able to increase its net sales and income figures. However, the volume produced and sold in the Swiss Baby Care business declined due to much shorter delivery times, temporary loss of quantities in Libya and a new tender award mechanism with subsequent excess supply in the infant formula market in Egypt.

### **HOCHDORF Swiss Nutrition Ltd**

China is faced with a multitude of infant formula suppliers and intends to massively reduce the number of brands sold in China by means of a cumbersome registration procedure. In early June, we submitted the extensive documents for the registration of two brands to the responsible authority in China. Documents for other brands will follow in the second half of the year.

On the sales side, we intensified our efforts to gain new customers with the goal of filling the new capacities in Sulgen as quickly as possible. Initial conversations have taken place and give us reason to be confident. We have already signed a cooperation agreement with a new distributor.

Another milestone is the integration of a specialised glossary on our website in English and German. The glossary features definitions of all relevant terms in the fields of infant formula and nutrition in general for the benefit of our customers and anyone else who may be interested. Our glossary is being continually expanded and represents another step on our way to ensuring consumer proximity.

### **Pharmalys Group**

The integration of the Pharmalys Group has been successfully launched. Joint presentations are planned for 2018 in the fields of marketing and communication. The possibilities for selling further HOCHDORF products in the Pharmalys distribution network were also discussed, and the acceptance of some initial products was tested.

Pharmalys Laboratories SA started operations or introduced new products in various markets. For example, the "Primalac Cereals" product was launched in Iraq, Lebanon, Mauritania and West Africa. We now also sell our infant formula in Syria and Bahrain. Additionally, we succeeded in increasing our market share in numerous countries in which we are already present.

### **Outlook**

The customers of HOCHDORF Swiss Nutrition Ltd Baby Care have got used to shorter delivery times, and the ordered quantities have returned to normal. The order books for the second half of the year are again well filled. At the same time, customer acquisition for the additional capacities of our new spraying tower in Sulgen will continue from the second quarter of 2018. Pharmalys will be able to perpetuate its growth at a high level. For example, we will newly introduce our products in Ghana.



## Cereals & Ingredients

As planned, Marbacher Ölmühle GmbH commissioned additional processing capacities in spring. The trend towards healthy, tasty food is continuing unabated around the globe. Our strategy of offering products with added value meets a market need.

With new and existing products, the Cereals & Ingredients Division generated gross sales revenue of CHF 13.6 million, a figure that corresponds to that of the previous year. One of the highlights in this context is the profitable net sales growth of Marbacher Ölmühle GmbH.

The consumer demand for healthy food with added value – e.g. for vegan or organic products – is still on the rise. Our endeavour to be a competence centre for healthy nutrition is in line with this need. In the first half of 2017, we consistently pursued our path, focusing on the production of products and ingredients to meet this demand, e.g. in the area of cereal-based dry products and kids' food as well as vegetable oils and gluten-free flours.

### Locations

The employees of the Cereals & Ingredients Division of HOCHDORF Swiss Nutrition Ltd have reason to be proud of their outstanding service. In spring, they received two awards from a major business partner, namely the "Best Service" award and the "Best Collaboration" award. Congratulations! At the national and international level, we are active in the Health Supplements and Kids' Food areas. Our developers are working on organic and supplementary products in this field. Moreover, we launched our collaboration with Pharmalys and presented several products from the existing product range. Some of them are now being tested directly in the target market. In the Private Label division, our sprinklers and other products are successful in Switzerland. In collaboration with a customer, we successfully introduced new vegan seed mixtures to the market.

In spring, Marbacher Ölmühle GmbH commissioned additional production capacities. This was one of the reasons for the significant increase in gross sales revenue. The supplementary production of oils and seed flours was successfully sold in the market. Our first participation in the BIOFACH exhibition in Nuremberg as an exhibitor was a great success. In the first six months, we gained some new customers, and the demand for organic flours is on the rise. This year, our passion for quality oils has again been rewarded with the Taste Award: Our organic almond oil received two stars, and our golden linseed oil was awarded one star.

As a mere start-up, HOCHDORF South Africa Ltd achieved a respectable turnover. The distribution of the exquisite Afrikoa chocolate was intensified, and new distribution partners came on board. We further increased the level of awareness of our chocolate at the "Good Food & Wine Show" in Cape Town.

### Outlook

We shall continue with the work that started in the first six months and invest a lot of energy in the innovation and sale of healthy products. In November, we shall take part in the Food Ingredients Europe show in Frankfurt with a large stand. FIE is one of the world's ten most important trade shows in the field of ingredients. At the trade show, we shall present a highly attractive innovation in the field of "quality criteria for vegetable oils".



# Financial statement

HOCHDORF Group

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## Consolidated balance sheet

	30.06.2017 CHF	In %	31.12.2016 CHF	In %
<b>Assets</b>				
Cash and cash equivalents	38,341,128	8.1 %	67,707,898	15.9 %
Accounts receivable	82,946,468	17.5 %	58,868,481	13.8 %
Accounts receivable from related parties	11,081,891	2.3 %	8,420,706	2.0 %
Accounts receivable from associated parties	3,195,587	0.7 %	2,393,225	0.6 %
Other receivables from related parties	45,773	0.0 %	40,913	0.0 %
Other current receivables	15,217,693	3.2 %	5,624,557	1.3 %
Inventories	59,883,428	12.6 %	49,782,122	11.7 %
Accrued income and prepaid expenses	19,343,041	4.1 %	15,175,349	3.6 %
<b>Current assets</b>	<b>230,055,009</b>	<b>48.6 %</b>	<b>208,013,251</b>	<b>48.9 %</b>
Property and plant	72,951,530	15.4 %	72,438,655	17.0 %
Other tangible assets	155,700,420	32.9 %	130,538,589	30.7 %
<b>Total tangible assets</b>	<b>228,651,949</b>	<b>48.3 %</b>	<b>202,977,245</b>	<b>47.7 %</b>
Investments in associates and Joint Ventures	3,117,029	0.7 %	2,897,669	0.7 %
Financial assets	9,717,990	2.1 %	9,202,490	2.2 %
Intangible assets	2,250,375	0.5 %	2,383,628	0.6 %
<b>Long-term assets</b>	<b>243,737,343</b>	<b>51.4 %</b>	<b>217,461,032</b>	<b>51.1 %</b>
<b>Total assets</b>	<b>473,792,351</b>	<b>100.0 %</b>	<b>425,474,283</b>	<b>100.0 %</b>
<b>Liabilities</b>				
Trade payables	54,119,347	11.4 %	58,554,830	13.8 %
Short-term financial liabilities	1,190,385	0.3 %	9,132,437	2.1 %
Other short-term liabilities to related parties	20,745,187	4.4 %	54,300,508	12.8 %
Other short-term liabilities	17,129,982	3.6 %	12,784,274	3.0 %
Accrued liabilities and deferred income	7,539,045	1.6 %	4,651,986	1.1 %
<b>Current liabilities</b>	<b>100,723,946</b>	<b>21.3 %</b>	<b>139,424,035</b>	<b>32.8 %</b>
Long-term financial liabilities	89,410,410	18.9 %	120,731,978	28.4 %
Long-term liabilities to related parties	0	0	105,500,000	24.8 %
Provisions	14,747,071	3.1 %	14,013,721	3.3 %
<b>Non-current liabilities</b>	<b>104,157,481</b>	<b>22.0 %</b>	<b>240,245,700</b>	<b>56.5 %</b>
Share capital	14,347,600	3.0 %	14,347,600	3.4 %
Treasury shares	-6,971,051	-1.5 %	-5,145,813	-1.2 %
Capital reserves	89,928,269	19.0 %	96,730,882	22.7 %
Mandatory convertible bond	218,490,000	46.1 %	0	0.0 %
Retained earnings	-73,282,433	-15.5 %	-93,647,546	-22.0 %
Minority interests	19,609,980	4.1 %	13,588,365	3.2 %
Earnings current year	6,788,558	1.4 %	19,931,059	4.7 %
<b>Shareholders' equity</b>	<b>268,910,925</b>	<b>56.8 %</b>	<b>45,804,548</b>	<b>10.8 %</b>
<b>Total liabilities and shareholders' equity</b>	<b>473,792,351</b>	<b>100.0 %</b>	<b>425,474,283</b>	<b>100.0 %</b>

## Consolidated income statement

	2017		2016	
	CHF	In %	CHF	In %
	01.01.17 – 30.06.17		01.01.16 – 30.06.16	
Sales of products	311,915,526	99.7 %	278,121,386	94.9 %
Other revenue	194,646	0.1 %	279,823	0.1 %
<b>Gross sales revenue</b>	<b>312,110,172</b>	<b>99.8 %</b>	<b>278,401,209</b>	<b>95.0 %</b>
Reductions in revenue	-9,532,592	-3.0 %	-5,620,827	-1.9 %
<b>Net sales revenue</b>	<b>302,577,580</b>	<b>96.7 %</b>	<b>272,780,382</b>	<b>93.0 %</b>
Change in inventories of semi-finished and finished products	10,266,357	3.3 %	20,424,977	7.0 %
<b>Production revenue</b>	<b>312,843,937</b>	<b>100.0 %</b>	<b>293,205,359</b>	<b>100.0 %</b>
Cost of material and goods	-233,556,416	-74.7 %	-222,463,175	-75.9 %
<b>Gross operating profit</b>	<b>79,287,521</b>	<b>25.3 %</b>	<b>70,742,183</b>	<b>24.1 %</b>
Personnel expenses	-25,282,727	-8.1 %	-24,109,548	-8.2 %
Other operating expenses	-32,307,657	-10.3 %	-28,185,634	-9.6 %
<b>Operating expenses</b>	<b>-57,590,384</b>	<b>-18.4 %</b>	<b>-52,295,183</b>	<b>-17.8 %</b>
<b>EBITDA</b>	<b>21,697,137</b>	<b>6.9 %</b>	<b>18,447,001</b>	<b>6.3 %</b>
Depreciation of tangible assets	-5,581,225	-1.8 %	-5,089,810	-1.7 %
Amortisation of intangible assets	-335,573	-0.1 %	-248,529	-0.1 %
<b>EBIT</b>	<b>15,780,339</b>	<b>5.0 %</b>	<b>13,108,662</b>	<b>4.5 %</b>
Income from associated companies	219,360	0.1 %	180,939	0.1 %
Financial earnings	-1,173,027	-0.4 %	-406,602	-0.1 %
<b>Earnings from operating activities</b>	<b>14,826,672</b>	<b>4.7 %</b>	<b>12,882,999</b>	<b>4.4 %</b>
Non-operating result	-16,439	-0.0 %	-12,906	-0.0 %
Extraordinary result	39,626	0.0 %	-4,036	-0.0 %
<b>Earnings before taxes (EBT)</b>	<b>14,849,858</b>	<b>4.7 %</b>	<b>12,866,057</b>	<b>4.4 %</b>
Taxes	-2,022,536	-0.6 %	-1,827,153	-0.6 %
<b>Net profit</b>	<b>12,827,322</b>	<b>4.1 %</b>	<b>11,038,904</b>	<b>3.8 %</b>
<b>Attributable to:</b>				
Shareholders of HOCHDORF Holding Ltd	6,788,558	2.2 %	10,765,173	3.7 %
Minority interests	6,038,764	1.9 %	273,731	0.1 %
<b>Net profit</b>	<b>12,827,322</b>	<b>4.1 %</b>	<b>11,038,904</b>	<b>3.8 %</b>
<b>Earnings per share (basic)</b>	<b>4.83</b>		<b>7.65</b>	
<b>Earnings per share (diluted)</b>	<b>4.00</b>		<b>7.65</b>	

## Consolidated cash flow statement

	2017 CHF	2016 CHF
	01.01.17 – 30.06.17	01.01.16 – 30.06.16
Net profit incl. minority interests	12,827,322	11,038,903
Depreciation of tangible and intangible assets	5,916,798	5,338,339
Net interest expense	1,790,401	470,131
Other non-cash items	-538,037	67,139
Change in long-term provisions	633,848	455,490
Accounting losses (profits) from sales of fixed assets	-16,658	4,278
Income from associates and joint ventures	-219,360	-180,939
<b>Cash flow from operating activities before changes in net working capital</b>	<b>20,394,313</b>	<b>17,193,341</b>
As % of net sales revenue	6.74 %	6.30 %
Change in accounts receivable	-23,830,894	-939,301
Change in accounts receivable from related parties	-2,659,980	-2,996,201
Change in accounts receivable from associated parties	-740,625	0
Change in other current receivables	-9,441,468	-3,062,466
Change in other current receivables from related parties	-4,861	0
Change in inventories	-9,976,894	-19,524,372
Change in accrued income	-4,164,792	-2,026,712
Change in trade payables	-4,672,584	-7,095,333
Change in other short-term financial liabilities	4,202,386	-625,256
Change in other short-term financial liabilities to related parties	-8,038,238	344,299
Change in accrued liabilities and deferred income	2,857,070	1,684,935
<b>Change in net current assets</b>	<b>-56,470,880</b>	<b>-34,240,408</b>
<b>Cash flow from operating activities</b>	<b>-36,076,567</b>	<b>-17,047,067</b>
As % of net sales revenue	-11.92 %	-6.25 %
Investments in tangible assets	-30,708,737	-11,432,255
Divestments of tangible assets	27,823	532,704
Investments in intangible assets	-198,943	-98,504
Divestments of non-current financial assets	22,029	873
Interest and dividends realized from financial assets	670	8
<b>Cash flow from investing activities</b>	<b>-30,857,157</b>	<b>-10,997,174</b>
<b>Free cash flow</b>	<b>-66,933,723</b>	<b>-28,044,241</b>
As % of net sales revenue	-22.12 %	-10.28 %

Continuation of consolidated cash flow statement

	2017 CHF	2016 CHF
	01.01.17 – 30.06.17	01.01.16 – 30.06.16
Change in short-term financial liabilities	-7,955,423	4,579,631
Change in long-term financial liabilities	-31,589,574	14,956,036
Additions/disposals of minority interests in capital and profit	-40,486	0
Mandatory convertible bond	87,485,000	0
Capital increase	-1,420,881	-49,884
Change in capital of subsidiaries	18,750	0
Sale (purchase) of treasury shares net cash flow	-1,745,768	-515,690
Interest paid	-1,791,071	-470,139
Dividend paid to shareholders	-5,336,891	-5,216,023
<b>Cash flow from financing activities</b>	<b>37,623,655</b>	<b>13,283,932</b>
Impact of currency translation	-56,692	24,964
<b>Net change in cash and cash equivalents</b>	<b>-29,366,760</b>	<b>-14,735,345</b>
Cash and cash equivalents at 1 January	67,707,898	43,023,224
<b>Cash and cash equivalents at 30 June</b>	<b>38,341,138</b>	<b>28,287,879</b>

## Consolidated statement of changes in equity

	Share capital	Own shares	Capital reserves	Retained earnings	Accumulated currency translation differences	Total excl. minority interests	Minority interests	Total including minority interests
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
<b>Equity as at 31.12.2015</b>	<b>14,348</b>	<b>-3,814</b>	<b>101,490</b>	<b>76,972</b>	<b>-4,410</b>	<b>184,585</b>	<b>8,203</b>	<b>192,788</b>
Allocation of capital investments to free reserves			-5,309	5,309		0		0
Capital increase			-49			-49		-49
Purchase of treasury shares		-1,613				-1,613		-1,613
Sale of treasury shares		914	183			1,097		1,097
Currency translation differences					-86	-86	-36	-122
Dividend of parent company				-5,216		-5,216		-5,216
Net profit				10,765		10,765	274	11,039
<b>Equity as at 30.06.2016</b>	<b>14,348</b>	<b>-4,513</b>	<b>96,315</b>	<b>87,830</b>	<b>-4,496</b>	<b>189,483</b>	<b>8,441</b>	<b>197,924</b>
<b>Equity as at 31.12.2016</b>	<b>14,348</b>	<b>-5,146</b>	<b>96,731</b>	<b>-68,993</b>	<b>-4,723</b>	<b>32,216</b>	<b>13,588</b>	<b>45,805</b>
Goodwill/badwill from acquisition of shares of subsidiaries				-1		-1	-49	-49
Allocation of capital investments to free reserves			-5,452	5,452		0		0
Capital increase			-1,430	9		-1,421	9	-1,412
Mandatory convertible bond			218,490			218,490		218,490
Purchase of treasury shares		-1,976				-1,976		-1,976
Sale of treasury shares		151	79			230		230
Currency translation differences					310	310	23	333
Dividend of parent company				-5,337		-5,337		-5,337
Net profit				6,789		6,789	6,039	12,827
<b>Equity as at 30.06.2017</b>	<b>14,348<sup>1)</sup></b>	<b>-6,971</b>	<b>308,418</b>	<b>-62,081<sup>2)</sup></b>	<b>-4,413</b>	<b>249,301</b>	<b>19,610</b>	<b>268,911</b>

<sup>1)</sup> 1,434,760 registered shares at a nominal value of CHF 10.00; each share corresponds to one vote; the maximum entry limit in the share register is 15 % of the votes.

<sup>2)</sup> Thereof non-distributable legal reserves TCHF 10,172 (previous year: TCHF 10,172).

### Contingent capital

The Group has contingent capital in the nominal amount of CHF 7,173,800, corresponding to 717,380 registered shares at a nominal value of CHF 10 each, which is connected to the outstanding mandatory convertible bond.

# Notes to the consolidated half-year financial statements as at 30 June 2017

## 1. Basic accounting principles

These consolidated financial statements consist of the unaudited half-year financial statements for HOCHDORF Holding Ltd and its subsidiaries for the reporting period ended 30 June 2017. The consolidated interim financial statements were prepared in conformity with existing guidelines based on the accounting recommendations of Swiss GAAP FER 31 (supplemental recommendations for listed companies) and with the consolidation and measurement principles described in the consolidated annual financial statements for 2016. Income taxes are calculated based on an estimate of the income tax rate expected for 2017 as a whole. The consolidated half-year financial statements are to be read in conjunction with the consolidated financial statements prepared for the financial year ended 31 December 2016, as this represents an updated version of the last complete financial statements. The consolidated half-year financial statements were approved by the Board of Directors on 10 August 2017.

## 2. Changes in the scope of consolidation

There were no changes to the scope of consolidation during the reporting period.

In March 2017, the stake in Pharmalys Tunisie S.à.r.l. was increased by 2 % to a total of 51 %.

## 3. Currency translation rates in CHF

	Income statement average exchange rates		Rates on the balance sheet date	
	January to June 2017	January to June 2016	30.06.2017	31.12.2016
EUR 1	1.0773	1.0948	1.0949	1.0720
1 USD	0.9906	0.9872	0.9582	1.0164
1 TND	0.4196	n/a	0.3887	0.4418
1 UYU	0.0348	0.0318	0.0336	0.0346
1 ZAR	0.0743	0.0649	0.0731	0.0743



#### **4. Contingent liabilities**

HOCHDORF Swiss Nutrition Ltd was required to furnish a guarantee (performance bond) in the amount of EUR 398,000 for its deliveries to Egypt. The customer can lodge a claim under the performance bond only in the event of non-delivery by HOCHDORF.

#### **5. Events after the balance-sheet date**

##### **Closure of the curd production plant of Uckermärker Milch GmbH, Prenzlau**

On 26 June 2017, the Shareholders' Meeting of Uckermärker Milch GmbH (UMP) in Prenzlau decided to close down the curd production operations of UMP as of 31 October 2017. This is due to the loss as of the said date of commissioned orders of a large customer, who has lost significant market shares in the German market. The measure affects 40 of the current 190 employees. The headcount reduction is to take place in a socially compatible manner and with as few dismissals as possible. The works council and the affected employees were informed in July 2017. The resulting need for provisions is now being determined and will be presented in the annual financial statements for 2017.

##### **Estimated purchase price of the Pharmalys companies**

The purchase price is calculated on the basis of the average EBIT of 2016 and 2017 of Pharmalys Laboratories SA and Pharmalys Tunisie S.à.r.l., multiplied by a factor of 14. In addition to this, there is a one-off upside compensation of CHF 28-36 million for the increase in the value of the shares of HOCHDORF Holding Ltd from the signing of the Memorandum of Understanding through 24 October 2016. The purchase price is thus variable and will only be finalised as at 31 March 2018. Based on these half-year financial statements as at 30 June 2017, the purchase price estimate does not need to be adjusted. On the basis of the current forecasts, the final purchase price will thus remain in a range of CHF 160-190 million. We believe that it will most likely be closer to the upper end.

#### **6. Explanatory remarks about the interim financial statements**

Based on our estimates of the product price development and in view of the cyclical business of Pharmalys Laboratories SA, we expect net sales and income to be higher in the second half of the year.

For the first time, this year's half-year financial statements include the Pharmalys companies acquired as of the end of 2016. For this reason, the consolidated income statement cannot be directly compared with that of the previous year. The changing market conditions in other countries (increasing milk prices) resulted in highly heterogeneous company results in the first half of the year. Therefore, the Group result must be evaluated in a differentiated manner. Despite the smaller quantity sold (111,948 tonnes compared to 125,604 tonnes in the previous year), the Group's turnover increased to CHF 312 million. This was especially due to the rising milk and fat prices in the EU. Despite the similar incoming liquid volume (226 million kg compared to 227 million kg in the previous year), HOCHDORF Swiss Nutrition Ltd suffered substantial losses. The main reasons were the lower "Schoggi Law" funding and the reduced production of infant formula due to the temporary loss of quantities in Egypt and Libya. Moreover, shorter delivery times resulted in production stops, as the customers still primarily sold their existing stock. The Cereals & Ingredients Division also sustained some margin losses. Dairy Ingredients, the largest division, was hit hard by the effects of the lower "Schoggi Law" funding and the intensified competition. Due to initiated measures, such as price adjustments, segmentation, portfolio adjustments and seasonal stock reduction, we anticipate a significant increase in earnings in all three areas in the second half of the year. By contrast, Pharmalys Laboratories SA surpassed our expectations. This shows that we have taken the right approach with our strategy of forward integration. HOCHDORF Baltic Milk UAB continues to suffer from the state-influenced milk prices, which cannot be realised in the market. Therefore, the company reported a negative result. Political influences by the authorities still prevent the necessary adjustment of the milk prices, which inevitably leads to falling margins. Uckermärker Milch GmbH performed well in the persistently difficult market environment. The company was able to benefit from the market conditions and achieved a positive result in line with expectations in the first half of the year. However, due to the loss of a large customer as of 31 October 2017 and the announced closure of the curd production plant, we anticipate a correction towards the end of the year and a slightly negative result. Year on year, the quantity produced by the group dropped by 14.7 % in comparison with the same reporting period in the previous year. Due to the seasonal increase in receivables and inventories and the effect of Pharmalys, the cash flow from operating activities amounted to CHF -36.1 million (previous year: CHF -17.0 million). At CHF -30.9

million, the cash outflow from investing activities in the first half of the year was considerably higher than in the previous year (CHF –11.0 million). This was mainly due to ongoing investments in the new factory in Sulgen.

The Group performed well despite the difficult market conditions. We remain optimistic about the outlook for the second half of the year. It remains to be seen how the world market prices will develop. They are on the up, which may reduce the "Schoggi Law" funding gap, but that could also lead to further margin losses.

In view of possible competitive disadvantages compared to unlisted and large listed competitors, customers and suppliers, we have chosen not to present the segment results pursuant to Swiss GAAP FER 31/8.

The Swiss milk market is small and tightly knit, with few key companies and providers. Milk production is in the hands of just a few organisations. On the processing side, the market is shaped by four large dairies, along with cheesemakers. On the customer side, the chocolate industry segment is predominant, likewise with just a few large producers. In the area of infant formula (based on milk), only one other company apart from the HOCHDORF Group produces infant formula for the Swiss and international market.

The balance sheet total went up from CHF 425 million as at 31 December 2016 to CHF 474 million as at 30 June 2017. In the same period, the net debt dropped from CHF 213.4 million to CHF 52.2 million due to the issue of the mandatory convertible bond as of 30 March 2017. For this reason, the equity ratio increased sharply from 10.8 % as at 31 December 2016 to 56.8 % as at 30 June 2017. The syndicated loan covenants have been complied with in full.

## 7. Breakdown of gross turnover from goods and services by product group and region

### By product group

TCHF	1st half of 2017		1st half of 2016	
Milk products/cream	130,279	41.8 %	120,386	43.3 %
Milk powder	85,372	27.4 %	83,024	29.9 %
Infant formula	80,638	25.8 %	58,888	21.2 %
Specialties/wheat germ	8,062	2.6 %	8,052	2.9 %
Bakery/confectionery goods	2,315	0.7 %	2,372	0.8 %
Remaining products/services	5,250	1.7 %	5,399	1.9 %
<b>Total</b>	<b>311,916</b>	<b>100.0 %</b>	<b>278,121</b>	<b>100.0 %</b>

### By region

TCHF	1st half of 2017		1st half of 2016	
Switzerland/Liechtenstein	103,559	33.2 %	107,332	38.6 %
Europe	130,185	41.7 %	117,195	42.1 %
Asia	14,729	4.7 %	12,330	4.4 %
Middle East/Africa	61,008	19.6 %	38,329	13.8 %
USA/Canada	239	0.1 %	38	0.0 %
Americas (others)	798	0.3 %	2,465	0.9 %
Rest	1,398	0.4 %	432	0.2 %
<b>Total</b>	<b>311,916</b>	<b>100.0 %</b>	<b>278,121</b>	<b>100.0 %</b>

## 8. Key figures

TCHF (unless otherwise stated)	2017	2016	Change
January to June			
Processed milk and whey in million kg	377.6	415.9	-9.21 %
Gross sales revenue	312,110	278,401	12.11 %
Earnings before interest, tax, depreciation and amortisation (EBITDA)	21,697	18,447	17.62 %
As % of production revenue	6.9 %	6.3 %	
Earnings before interest and taxes (EBIT)	15,780	13,109	20.38 %
As % of production revenue	5.0 %	4.5 %	
Net profit	12,827	11,039	16.20 %
As % of production revenue	4.1 %	3.8 %	
Staffing levels as at 30.6. (nominal)	686	614	11.73 %

#### Additional information

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##### **Important dates**

05 April 2018: Annual results press conference  
04 May 2018: Annual General Meeting  
30 August 2018: 20th letter to shareholders concerning the half-year financial statements 2018

##### **Auditing / Approval**

The balance sheet and income statement in this shareholder letter have not been audited. The consolidated half-year financial statements were approved by the Board of Directors at its meeting on 10 August 2017.

##### **Investor newsletter**

Information about the HOCHDORF Group can be found at [www.hochdorf.com](http://www.hochdorf.com). In the Investor Relations web page, investors can also register for the newsletter. They will then receive an email each time a press release is posted online.

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