INTERIM REPORT

2018

1 January to 30 June 2018
(Swiss GAAP FER)

HOCHDORF
BEST PARTNER

First half of 2018 – summary

The half-year earnings show that 2018 has rightly been referred to as a transition year. In accordance with the strategy, Bimbosan AG was acquired in order to further strengthen the forward integration in the Baby Care Division, and the loss-making HOCHDORF Baltic Milk UAB was sold.

Despite the delayed brand registration in China, the Baby Care Division increased the volume sold by almost 5%. The Dairy Ingredients Division successfully sold its first milk powder specialities on the market, and the marketing preparations for instant milk powder for end consumers carried on. Cereals & Ingredients generated turnover growth of almost 40%.

HOCHDORF processed 365.3 million kg of milk, whey, cream etc. (PY: 377.6 million kg) and sold 83,374 t of products (PY: 111,948 t; –25.5%). The Group generated net sales revenue of CHF 281.6 million (PY: CHF 302.4 million; –6.9%). Various temporary or non-recurring effects depressed the half-year result. These included, above all, the high start-up costs and delays affecting the new spray tower line and the lack of sales in China, which also had a considerable negative impact on the result of Pharmalys Laboratories SA; in addition, the sale of HOCHDORF Baltic Milk UAB had a negative impact. This resulted in EBIT of CHF 2.9 million (–81.4%). We anticipate a very strong second half of the year but will not be able to fully offset the negative effects of the first half and are therefore slightly lowering our forecast.

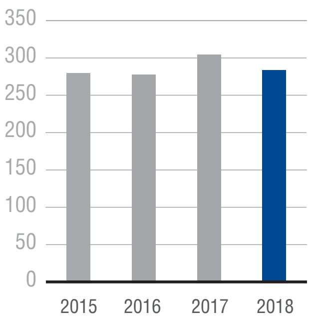
Key figures – Annual Report (30 June)

Key figures	30.06.2018	Restated 30.06.2017	30.06.2016	30/06/2015	30.6.2014
Processed milk and whey in tonnes	365,344	377,560	415,858	421,380	279,862
Products sold, in tonnes	83,374	111,948	125,604	125,767	69,893
Total assets (in TCHF)	586,685	473,792	359,664	322,702	253,332
Equity ratio	45.82%	56.76%	55.03%	47.01%	41.30%
Cash flow from operating activities (in TCHF)	–114,305	–37,243	–17,047	-11,797	–12,483
Market capitalisation (in TCHF)	403,885	438,678	263,709	176,191	117,713
Share price as at 30.06. in CHF	281.50	305.75	183.80	152.00	130.50
Earnings per share in CHF, basic	–1.59	5.65	7.65	3.59	6.97
Earnings per share in CHF, diluted	–1.59	3.75	7.65	3.20	5.33
Staffing levels at 30.06.	678	686	614	588	371

Financial data (30 June)

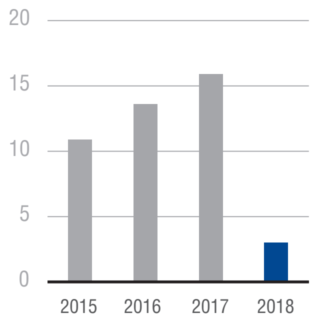
Net sales revenue

CHF Mio.



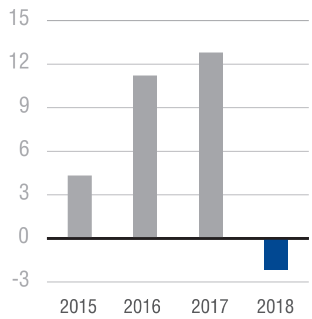
EBIT

CHF Mio.



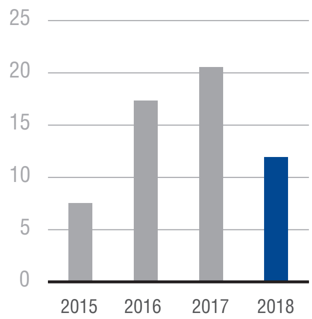
Net profit

CHF Mio.



Earned capital

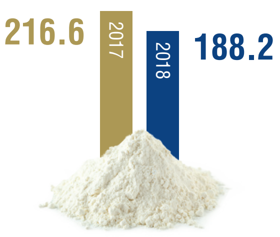
CHF Mio.



Market data (30 June)

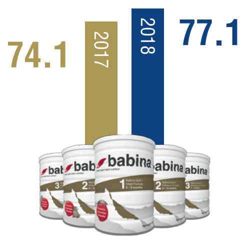
Net sales Dairy Ingredients

CHF Mio.



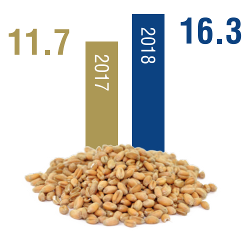
Net sales Baby Care

CHF Mio.



Net sales Cereals & Ingredients

CHF Mio.



Dear Shareholders

In the first half of the year, the Baby Care Division achieved higher turnover despite the delayed brand registration in China and although the new spray tower system was still in its test phase. The Dairy Ingredients Division has been realigned and is expected to deliver a slightly positive earnings contribution as early as 2018. Due to the weak first half of the year in terms of earnings, the forecast for the current business year will be adjusted slightly.

In the first six months, the HOCHDORF Group processed 365.3 million kg of milk, whey, cream and buttermilk (liquid quantity) (PY: 377.6 million kg; –3.2%). The slight decline was mainly caused by the further reduced milk quantity in the Lithuanian plant and its sale as of the end of May 2018. Due to the streamlining of the product portfolio, the product quantity sold dropped –25.5% to 83,374 t (PY: 111,948 t). However, the net sales revenue only declined –6.9% to CHF 281.6 million (PY: CHF 302.4 million).

Higher expenses for investments in the future

Year on year, gross earnings went up slightly to CHF 82.0 million (PY: CHF 79.3 million). Due to the significantly higher operating expenses, EBITDA only amounted to CHF 13.1 million (PY: CHF 21.7 million). The higher depreciation of fixed assets (CHF 6.6 million; +18.2% higher than PY) and the impairment of shareholdings (CHF 2.8 million; PY: CHF 0) brought the EBIT to CHF 2.9 million (PY: CHF 15.8 million). The result was a loss attributable to shareholders of CHF –2.2 million.

The consolidated income statement was affected by the relatively high increase in operating expenses. The higher expenses need to be evaluated from different perspectives. On the one hand, we recorded actual cost increases, e.g. for maintenance as well as energy and disposal. On the other hand, there were higher expenses associated with the roll-out of our strategy. For example, we hired additional personnel for the commissioning of the new systems, incurred marketing expenses for the market launch of new products in the Dairy Ingredients Division and invested in potential market entries and in the acquisition of customers in the Baby Care and Cereals & Ingredients Divisions. The latter will provide a return in the medium to long term. Thus, part of the higher operating expenses represent investments in the future.

Continuation of successful strategy

In the first half of the year, HOCHDORF continued to pursue its strategy. In accordance with the strategy, Bimbosan AG was acquired. With its Swiss origin, long-standing positive market presence and focus on biological raw materials, the company suits the HOCHDORF Group very well and is extremely well-suited for international expansion. In line with the HOCHDORF strategy, we sold HOCHDORF Baltic Milk UAB, thereby greatly reducing the business risks in the Dairy Ingredients Division (see page 20 for details).

In accordance with our strategy, we streamlined the product portfolio in the Dairy Ingredients Division. At the same time, however, we developed and sold special milk powder for the first time. Moreover, we moved ahead with the integration of Zifru Trockenprodukte GmbH and developed new product and marketing concepts in the Kids Food and Health Food Divisions.

New production line in Sulgen

After some initial delays, the new production and packaging line in Sulgen began regular production in mid-August. The state-of-the-art, technologically complex system has met our expectations. We are especially pleased with the powder structure achieved with it. Now, the plant capacity must be duly utilised with suitable products.

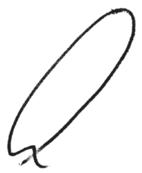
Outlook

Under consideration of the production and sales orders already received, we expect excellent results in the second half of the year. Nevertheless, we will not be able to fully make up for the lower-than-expected half-year result. We are therefore slightly lowering our forecast for the 2018 business year. We are now expecting net revenue of CHF 570 – 600 million and EBIT amounting to 5.8 – 6.5% of the production revenue. This adjustment is based on the lack of lucrative sales in China, delays in the new production and filling facilities, the weak half-year results of Pharmalys Laboratories SA and the impairment from the sale of the HOCHDORF Baltic Milk UAB shareholding.

On the operating side, we expect the Baby Care Division to slightly exceed the previous year's volumes thanks to the growth among existing customers. In the Dairy Ingredients Division, we are driving the business with premium chocolate manufacturers. Moreover, we will produce additional special milk powders. Various market and product launches have been scheduled in the Cereals & Ingredients Division. We will carefully analyse the said cost increases and take meaningful countermeasures.

Thank you for supporting the HOCHDORF strategy, whose roll-out will take a few more months.

Kind regards from your BEST PARTNER
HOCHDORF Holding Ltd.



Dr Daniel Suter
Chairman of the Board of Directors

Dr Thomas Eisenring
CEO

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CEO

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Chairman of the Board of Directors

Business areas

Dairy ingredients

Dr Peter Pfeilschifter has been heading the Dairy Ingredients Division since the beginning of April. Together with his team, he continues to streamline the existing product portfolio and to develop new special milk powders at a high pace.

The Dairy Ingredients Division generated net revenue amounting to CHF 188.2 million (PY: CHF 216.6 million; −13.1%). The lower turnover was caused by the ongoing price distortions between the milk fat and milk protein valuation on the international milk market. The total amount of milk, cream, whey and permeate (liquid quantity) declined by a little more than −3% to 365.3 million kg.

Companies
In the Dairy Ingredients Division of *HOCHDORF Swiss Nutrition Ltd*, this year we introduced seasonal price reductions for the first time in the high milk season from March to May. A price surcharge in the same amount will be granted in the months from August to October, during which less milk is produced. Accordingly, the amount of milk processed in the Swiss plants dropped −4.8% to 166.3 million kg (PY: 174.7 million kg). However, the total amount of liquid processed increased slightly to 229.7 million kg (PY: 225.6 million kg; +1.8%). The project to improve profitability by means of streamlining the portfolio and developing new special milk powders was taken over and continued by Dr Peter Pfeilschifter.

At the agricultural policy level, industry, customer and supplier discussions were held concerning the successor solution to the «Schoggi Law». The implementation is associated with a number of pricing changes on the customer and supplier side.

In the first half of 2018, *Uckermärker Milch GmbH* processed a total of 117.8 million kg (liquid quantity) (PY: 125.3 million kg; −4.8%). The processed milk quantity remained more or less stable. In contrast, the amount of purchased cream dropped significantly, as the demand for fat could be largely covered from own milk acquired additionally. On the market side, we are still struggling with the low milk protein valuation. The good butter business was not able to fully compensate for the very weak milk powder prices. The curd business, which was resumed in mid-February, and the buttermilk business are at the expected level and are to be stepped up in the second half of the year, also through collaboration with a new partner on the marketing side.

In accordance with the strategy, our market development concentrated on higher-margin special milk powder. Initial production lots were marketed successfully, showing that we are on the right path. The successfully completed quality audits for the special milk powders provide additional confirmation.

Outlook
The market environment has been and will remain challenging. In Switzerland, talks concerning the introduction of the new "Schoggi Law" solution continue with suppliers and customers. In the short run, we do not expect any major changes in the milk prices, either in Switzerland or in the EU. However, due to the extremely dry summer in many parts of Europe, we expect reduced quantities in the mid-term, which could lead to higher milk prices.

On the market side, we will continue to streamline the product portfolio and step up our marketing activities. We continue to anticipate net revenue of CHF 350 – 380 million for the business year 2018 as a whole.

Baby Care

Thanks to the acquisition of Bimbosan AG, the HOCHDORF Group now has a tradition-rich, successful Swiss brand in the Baby Care Division. Cooperation has got off to a good start and initial discussions have been held on the further internationalisation of the brand.

In the first six months of 2018, the Baby Care Division grew 4.1% and generated net revenue of CHF 77.1 million (PY: CHF 74.1 million). We are pleased that despite the delayed brand registration in China, we were able to increase the turnover. This was mainly due to the higher turnover with existing customers in the Middle East and in South and Central America. However, customers in Asian countries also recorded attractive growth.

Companies

The production and filling systems for infant formula of *HOCHDORF Swiss Nutrition Ltd* were well filled in the first half of the year. Some of our customers recorded substantial growth. This enabled us to compensate for the loss of our profitable business in China, at least in terms of sales. Nevertheless, the speedy registration of our China brands remains a key goal which we continue to pursue with great effort.

We are also focused on acquiring new customers to utilise the capacity of the new production and filling line in the Sulgen plant. For example, towards the end of the first half of the year, we were able to perform some test production runs for potential customers on the new spray tower line. However, we do not expect regular production runs for new customers until 2019.

In the first half of the year, the net revenue generated by *Pharmalys Laboratories SA* remained below targets. The lack of business in China put enormous pressure on turnover and earnings; high market entry costs also weighed on the result. We expect a very strong second half of the year but will end the year below the previous year in terms of turnover and earnings.

As of the beginning of May 2018, the HOCHDORF Group acquired the traditional Swiss company *Bimbosan AG*. With this successful Swiss brand for infant formula and food for small children, we plan to enter the international market as well. Initial talks were held in Asian and African countries. However, due to the cumbersome product registration, the international expansion will not take place before the second half of 2019, at the earliest. In Switzerland, Bimbosan successfully launched various new products and stepped up its online presence (website and social media) in the first half of the year.

Outlook

As in the previous year, the order books for the second half of the year are well filled. Without the additional capacities of the new production and filling line, it would not be possible to deliver the goods ordered by our customers and promised. In the event of registration of our brands for China, our new plants would provide us with sufficient capacity to supply our customers as quickly as possible.

On the production side, in August we launched the first commercial production runs on the new production and filling line in Sulgen. We will continue to focus on the acquisition of new customers. On the market side, all companies are looking forward to various market and product launches.

In April, we announced a turnover forecast for the Baby Care Division of CHF 220 – 230 million. For these reasons, we now expect lower net sales of CHF 200 – 215 million for the 2018 business year.

Cereals & Ingredients

In the first half of the year, Cereals & Ingredients achieved organic growth of more than 30%. This growth would not have been possible without the great upfront work done in 2017.

In the first half of 2018, the Cereals & Ingredients Division sold products worth CHF 16.3 million (net revenue), thereby achieving growth of almost 40% (PY: CHF 11.7 million; +39.8%). Both Marbacher Ölmühle GmbH and the Swiss Cereals & Ingredients business accounted for organic growth of more than 30%.

Companies
The Cereals & Ingredients Division of *HOCHDORF Swiss Nutrition Ltd* recorded significant growth in various product categories. Additionally, some new projects were rolled out in the Kids Food Division.

Marbacher Ölmühle GmbH seamlessly followed up on last year's growth. Significant turnover growth was achieved in the field of special flours, in particular. We place great emphasis on quality. This is doubtlessly one of the reasons why our quality products received the Taste Awards from the iTQi (International Taste & Quality Institute). The newly launched hemp seed oil even qualified for three of three possible stars. The apricot oil received two stars.

The apple slices of *Zifru Trockenprodukte GmbH* also received two of three stars from the Taste Awards . The company successfully presented its products at several trade shows and to various customers. At the same time, the marketing efforts for the Snapz brand were intensified.

As announced, *HOCHDORF South Africa Ltd* was able to significantly increase its sales at a still relatively low level. For example, the retail sales of Afrikoa chocolate doubled compared to the previous year.

Outlook
Long-standing Managing Director Michel Burla has decided to leave the HOCHDORF Group as of the end of the year. We will provide information on the successor for the promising Cereals & Ingredients Division in due time.

All in all, the companies of the business division are all making good progress towards the achievement of the goals set for 2018. For this, the market projects need to be completed, and the sales need to be further increased. A number of new product launches have already been planned with various customers and distributors.

«With Bimbosan, the successful traditional Swiss brand for infant formula and toddler food, we also want to become active in the international market in the future. Initial talks have been held in Asian and African countries.»

Financial statement

Consolidated balance sheet

	30.06.2018 CHF	In %	31.12.2017 CHF	In %
Assets				
Cash and cash equivalents	21,465,359	3.7%	63,860,406	11.0%
Accounts receivables	76,275,951	13.0%	81,482,930	14.0%
Accounts receivables from related parties	54,546,632	9.3%	44,100,198	7.6%
Accounts receivables from associated companies	3,433,782	0.6%	1,556,325	0.3%
Other receivables from related parties	155	0.0%	155	0.0%
Other short-term receivables	14,830,019	2.5%	10,680,940	1.8%
Inventories	82,985,874	14.1%	55,444,588	9.5%
Accrued income and prepaid expenses	20,333,208	3.5%	21,554,817	3.7%
Current assets	**273,870,978**	**46.7%**	**278,680,359**	**47.9%**
Property and plant	89,977,028	15.3%	90,467,642	15.5%
Other fixed assets	204,179,109	34.8%	194,526,650	33.4%
Total fixed assets	**294,156,137**	**50.1%**	**284,994,292**	**48.9%**
Shareholdings	2,340,689	0.4%	2,639,109	0.5%
Financial assets	10,887,194	1.9%	10,192,369	1.8%
Intangible assets	5,429,550	0.9%	5,763,628	1.0%
Non-current assets	**312,813,570**	**53.3%**	**303,589,399**	**52.1%**
Total assets	**586,684,548**	**100.0%**	**582,269,757**	**100.0%**
Liabilities				
Accounts payables	55,352,212	9.4%	74,830,462	12.9%
Short-term financial liabilities	6,619,682	1.1%	11,649,849	2.0%
Other short-term liabilities to related parties	27,137,514	4.6%	96,829,227	16.6%
Other short-term liabilities	17,061,332	2.9%	17,037,222	2.9%
Accrued liabilities and deferred income	15,456,643	2.6%	15,496,439	2.7%
Current liabilities	**121,627,383**	**20.7%**	**215,843,200**	**37.1%**
Non-current financial liabilities	171,527,157	29.2%	39,722,116	6.8%
Non-current financial liabilities to related parties	6,860,000	1.2%	0	0.0%
Provisions	17,859,004	3.0%	17,422,404	3.0%
Non-current liabilities	**196,246,161**	**33.5%**	**57,144,520**	**9.8%**
Share capital	14,347,600	2.4%	14,347,600	2.5%
Treasury shares	–6,553,192	–1.1%	–8,570,839	–1.5%
Capital reserves	85,583,072	14.6%	90,010,753	15.5%
Mandatory convertible bond	198,935,822	33.9%	198,935,822	34.2%
Hybrid capital	107,588,513	18.3%	107,588,513	18.5%
Profit reserves	–150,985,962	–25.7%	–147,992,298	–25.4%
Minority interests	22,126,909	3.8%	29,068,201	5.0%
Earnings current year	–2,231,758	–0.4%	25,894,285	4.4%
Shareholders' equity	**268,811,004**	**45.8%**	**309,282,038**	**53.1%**
Total liabilities and equity	**586,684,548**	**100.0%**	**582,269,757**	**100.0%**

Consolidated income statement

	2018 CHF	In %	Restated 2017 CHF	In %
	01.01.18 – 30.06.18		01.01.17 – 30.06.17	
Net sales revenue	**281,594,477**	**91.8%**	**302,382,934**	**96.7%**
Other operating income	212,979	0.1%	194,646	0.1%
Change in inventories of semi-finished and finished products	24,859,751	8.1%	10,266,357	3.3%
Production revenue	**306,667,208**	**100.0%**	**312,843,937**	**100.0%**
Cost of materials and goods	–224,665,050	–73.3%	–233,556,416	–74.7%
Gross operating profit	**82,002,158**	**26.7%**	**79,287,521**	**25.3%**
Personnel expenses	–27,493,921	–9.0%	–25,282,727	–8.1%
Other operating expenses	–41,457,730	–13.5%	–32,307,657	–10.3%
Total operating expenses	**–68,951,651**	**–22.5%**	**–57,590,384**	**–18.4%**
EBITDA	**13,050,507**	**4.3%**	**21,697,137**	**6.9%**
Depreciation of fixed assets	–6,596,059	–2.2%	–5,581,225	–1.8%
Amortisation of intangible assets	–673,064	–0.2%	–335,573	–0.1%
Impairment of shareholdings	–2,849,490	–0.9%	0	0.0%
EBIT	**2,931,893**	**1.0%**	**15,780,339**	**5.0%**
Income from associates and joint ventures	267,329	0.1%	219,360	0.1%
Financial result	–4,625,415	–1.5%	–15,465	–0.0%
Earnings from operating activities	**–1,426,193**	**–0.5%**	**15,984,234**	**5.1%**
Non-operating result	–9,882	–0.0%	–16,439	–0.0%
Extraordinary result	–106,045	–0.0%	39,626	0.0%
Earnings before taxes	**–1,542,120**	**–0.5%**	**16,007,420**	**5.1%**
Income taxes	–655,458	–0.2%	–2,022,536	–0.6%
Net profit	**–2,197,578**	**–0.7%**	**13,984,884**	**4.5%**
Attributable to:				
Parent company shareholders	–2,231,758	–0.7%	7,946,120	2.5%
Minority interests	34,179	0.0%	6,038,764	1.9%
Net profit	**–2,197,578**	**–0.7%**	**13,984,884**	**4.5%**
Earnings per share (basic)	**–1.59**		**5.65**	
Earnings per share (diluted)	**–1.59**		**3.75**	

Consolidated cash flow statement

		2018 CHF	Restated 2017 CHF
		01.01.18 – 30.06.18	01.01.17 – 30.06.17
Net profit		–2,197,579	13,984,884
Depreciation of fixed assets and amortisation of intangible assets		7,269,124	5,916,798
Impairment of shareholdings		2,849,490	0
Currency effect on the Lithuania sale		3,017,328	0
Net interest expense		325,640	632,839
Other non-cash adjustments		–380,803	–538,037
Change in long-term provisions		472,271	633,848
Accounting losses (profits) from sales of fixed assets		101,344	–16,658
Income from associates and joint ventures		298,421	–219,360
Cash flow from operating activities before changes in working capital		**11,755,236**	**20,394,313**
As % of net sales revenue		4.17%	6.74%
Change in accounts receivables		5,145,952	–23,830,894
Change in accounts receivables from related parties		–10,446,434	–2,659,980
Change in accounts receivables from associated parties		–1,904,248	–740,625
Change in other short-term receivables		–4,390,079	–9,441,468
Change in other short-term receivables from related parties		0	–4,861
Change in inventories		–25,770,468	–9,976,894
Change in prepayments		1,352,828	–4,164,792
Change in liabilities from deliveries and services		–19,761,874	–4,672,584
Change in other short-term liabilities		–236,308	4,202,386
Change in other short-term liabilities to related parties	1)	–69,689,751	–8,038,238
Change in deferred income		–360,156	1,690,826
Change in net current assets		**–126,060,538**	**–57,637,123**
Cash flow from operating activities		**–114,305,302**	**–37,242,810**
In % of net sales revenue		–40.59%	–12.32%
Investments in fixed assets		–19,298,814	–30,708,737
Divestments of fixed assets		24,261	27,823
Investments in intangible assets		–340,055	–198,943
Investments in/divestment of long-term financial assets		–378,949	22,029
Net cash flow from the purchase (-) / sale (+) of investments	2)	–31,661,208	0
Interest and dividends received		230	670
Cash flow from investing activities		**–51,654,534**	**–30,857,157**
Free cash flow		**–165,959,836**	**–68,099,967**
In % of net sales revenue		–58.94%	–22.52%

Continuation of consolidated cash flow statement

	2018 CHF	Restated 2017 CHF
	01.01.18 – 30.06.18	01.01.17 – 30.06.17
Change in short-term financial liabilities	–961,805	–6,789,179
Change in long-term financial liabilities	131,240,610	–31,589,574
Additions/disposals of minority interests in capital and profit	0	–40,486
Mandatory convertible bond	0	87,485,000
Capital increase	0	–1,420,881
Change in capital of subsidiaries	0	18,750
Sale (purchase) of treasury shares net cash flow	3,329,006	–1,745,768
Interest paid	–4,382,801	–1,791,071
Dividend payments	–5,598,980	–5,336,891
Cash flow from financing activities	**123,626,029**	**38,789,899**
Currency translation	–61,241	–56,701
Net change in cash and cash equivalents	**–42,395,047**	**–29,366,769**
Cash and cash equivalents at 1 January	63,860,406	67,707,898
Cash and cash equivalents at 30 June	**21,465,358**	**38,341,129**

1) Purchase price payment Pharmalys Laboratories SA

2) Acquisition of Bimbosan AG and sale of HOCHDORF Baltic Milk UAB

Consolidated statement of changes in equity

	Share capital	Own shares	Capital reserves	Hybrid capital	Profit reserves	Accumulated currency translation differences	Total excl. minority interests	Minority interests	Total including minority interests
Restated	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2016	**14,348**	**–5,146**	**96,731**	**0**	**–68,993**	**–4,723**	**32,216**	**13,588**	**45,805**
Goodwill/badwill from acquisition of shares of subsidiaries					–1		–1	–49	–49
Allocation of capital contributions to free reserves			–5,452		5,452		0		0
Capital increase			–1,430		9		–1,421	9	–1,412
Mandatory convertible bond			198,936				198,936		198,936
Acquisition of own 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 from current period					7,946		7,946	6,039	13,985
Equity as at 30.06.2017	**14,348**	**–6,971**	**288,864**	**0**	**–60,924**	**–4,413**	**230,904**	**19,610**	**250,514**
Equity as at 31.12.2017	**14,348**	**–8,571**	**288,947**	**107,589**	**–119,064**	**–3,034**	**280,214**	**29,068**	**309,282**
Change in the scope of consolidation					–3,016	3,016	0		0
Goodwill/badwill from acquisition of shares of subsidiaries					–28,776		–28,776		–28,776
Allocation of capital contributions to free reserves			–5,739		5,739		0		0
Sale of treasury shares		2,018	1,311				3,329		3,329
Currency translation differences						–252	–252	–115	–368
Dividends					–5,599		–5,599	–6,860	–12,459
Net profit from current period					–2,232		–2,232	34	–2,198
Equity as at 30.06.2018	**14,348** [1]	**–6,553**	**284,519**	**107,589**	**–152,947** [2]	**–270**	**246,684**	**22,127**	**268,811**

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

2) 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 of 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 2018

1. Accounting principles

These consolidated financial statements comprise the unaudited half-year financial statements for HOCHDORF Holding Ltd and its subsidiaries for the reporting period ended 30 June 2018. The consolidated interim financial statements were prepared in conformity with existing guidelines based on the accounting recommendations of Swiss GAAP FER 31 (Complementary recommendation for listed companies) and with the consolidation and measurement principles described in the consolidated annual financial statements for 2017. Income taxes are calculated based on an estimate of the income tax rate expected for 2018 as a whole. The consolidated half-year financial statements are to be read in conjunction with the consolidated financial statements prepared for the business year ended 31 December 2017, 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 17 August 2018.

Restatement

On 30 March 2017, HOCHDORF Holding Ltd issued a mandatory convertible bond to finance the acquisition of Pharmalys Laboratories SA in December 2016. In the half-year financial statements as at 30 June 2017, this mandatory convertible bond was fully presented in the equity. However, according to the requirements of Swiss GAAP FER, this mandatory convertible bond must be divided into an external capital component and an equity component. As a result, the posted interest expense was too high. Due to this mistake, the consolidated earnings reported in the Swiss GAAP FER half-year financial statements for 2017 were too low, and the equity was too high. In connection with this violation of the accounting regulations, SIX Swiss Exchange and HOCHDORF Holding Ltd have come to an agreement. The errors were already taken into consideration in the annual financial statements as at 31 December 2017. The half-year financial statements as at 30 June 2018 present the corrected figures for 2017 (restatement). The effects of the corrections were as follows:

Item	Figure presented according to Swiss GAAP FER half-year financial statements 2017	Amount after correction	Correction effect	
Consolidated earnings in TCHF	12,827	13,985	+ 1,158	+9%
Consolidated earnings HOCHDORF shareholders in TCHF	6,788	7,946	+ 1,158	+17%
Earnings per share in CHF, basic	4.83	5.65	+ 0.82	+17%
Earnings per share in CHF, diluted	4.00	3.75	– 0.25	–6.3%
Equity in TCHF	268,911	250,514	–18,397	–6.8%

According to Swiss GAAP FER 3/7, the income statement according to the total cost accounting method begins with the item «Net revenue from deliveries and services». Starting with the annual financial statements as at 31 December 2017, the presentation has therefore been changed from gross revenue to net revenue. Starting with the interim financial statements as at 30 June 2018, this method is now also applied for the first time in interim financial statements. The previous-year figures as at 30 June 2017 have been duly adjusted.

2. Changes in the scope of consolidation

In the reporting period, the scope of consolidation underwent the following changes:

Consolidated companies		Currency	Capital in thousand	Capital shares and votes	
				30.06.2018	31.12.2017
Bimbosan AG, Welschenrohr, Switzerland	Acquisition as of 24.05.2018	CHF	350	100%	0%
Snapz Foods USA Inc., Delaware, USA	Formation as of 29.05.2018	USD	50	65%	0%
HOCHDORF Baltic Milk UAB, Medeikiai, Lithuania	Sale as of 19.06.2018	EUR	5,792	0%	100%

For further information on the purchase of Bimbosan AG, see section 7. For further information on the sale of HOCHDORF Baltic Milk UAB, see section 8. Snapz Foods USA Inc. was established as a subsidiary of Snapz Foods AG in order to facilitate the import of the products to the USA.

3. Currency translation rates in CHF

	Income statement average exchange rates		Rates on the balance-sheet date	
	January to June 2018	January to June 2017	30.06.2018	31.12.2017
EUR 1	1.1659	1.0773	1.1586	1.1702
USD 1	0.9668	0.9906	0.9901	0.9745
TND 1	0.3916	0.4196	0.3799	0.3902
UYU 1	0.0330	0.0348	0.0316	0.0339
ZAR 1	0.0781	0.0743	0.0721	0.0787

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

None.

6. Explanatory remarks about the interim financial statements

On account of the initial consolidation of the income statement of Bimbosan AG and deconsolidation of HOCHDORF Baltic Milk UAB, the previous-year figures are not directly comparable.

In terms of the turnover, the performance in the first half of the year is usually inferior to that of the second half. This is mainly due to the seasonal increase in the milk supply from April to June, which results in higher inventories, and the significantly higher sales of infant formula of Pharmalys Laboratories SA in the second half of the year. In terms of the orders and deliveries, the business approach of Pharmalys is more intensively focused on the second half of the year. Accordingly, the first half of the year is weaker. However, variations between the two halves of the year can differ highly when compared over several years.

The result of the first half of 2018 is marked by the ongoing price distortions between fat and protein in the EU, which also affect the Swiss situation and thus the «Schoggi Law» and the contributions under this law. Moreover, we received slightly less milk. Due to these events, the Dairy Ingredients (DI) Division closed the first quarter with a negative result. Thanks to the measures initiated, positive results were achieved in the second quarter. All in all, DI closed the first half of the year with a slight minus. The performance of the Baby Care (BC) Division remained below expectations in the first half of the year. The lower result was caused by Pharmalys. HOCHDORF Swiss Nutrition significantly outperformed the previous year. In 2017, the first half of the year had also been rather weak. This year, too, most of the business – especially that of Pharmalys – is focused on the second half of the year.

Thanks to the acquisition of Bimbosan AG, HOCHDORF now has its own strong brand in Switzerland. The objective is to defend the market position in Switzerland and to further develop the brand in the international arena. The start-up difficulties associated with the takeover of the business of the newly acquired companies were evident in Cereals & Ingredients (CI). Here, the budgeted turnover could not yet be reached. The core business was good at a high level, and we are optimistic about the further development in the kids' food area.

In view of the initiated measures and the orders on hand, we expect the group to achieve a significant earnings increase in the second half of the year, as in the previous year. The sale of HOCHDORF Baltic Milk UAB has eliminated major risks in the DI Division. The restructuring work for DI is progressing. Work needs to be done, especially in the fields of sales prices, milk prices as well as product expansion and portfolio streamlining. Despite the difficult environment, Uckermärker Milch GmbH (UMP) was able to generate earnings at the expected level. In July 2017, we had announced that due to the loss of a large customer, UMP would discontinue its entire curd production as of 31 October 2017. However, negotiations with a larger new customer have allowed UMP to carry on with a part of the curd production. About 50% of the total capacity can again be used. This reduced the encumbrance of the total earnings of UMP as well as the need for downsizing the workforce. The projects to introduce products that create more value are moving along well. The products have been developed, and the marketing has begun. In this field, we expect significantly higher sales quantities starting from 2019.

Due to the seasonal increase in receivables and inventories and the effect of Pharmalys as well as the purchase price payment for Pharmalys, the cash flow from operating activities amounted to CHF –114.3 million (PY: CHF –37.2 million). At CHF –51.6 million, the cash flow from investing activities was slightly higher than in the previous year (CHF –30.9 million). This was due to the acquisition of Bimbosan AG.

The balance-sheet total increased from CHF 582.3 million as at 31 December 2017 to CHF 586.7 million as at 30 June 2018. This was mainly due to the increase in inventories and the investments. In the same period, the net debt went up from CHF –12.5 million to CHF 156.7 million, especially due to the payments to the owners of Pharmalys and Bimbosan and for the financing of the net working capital. For this reason, the equity ratio dropped from 53.1% as at 31 December 2017 to 45.8% as at 30 June 2018. The syndicated loan covenants have been complied with in full.

7. Acquisition of Bimbosan AG

For the purpose of the strategic further development of the Baby Care Division, HOCHDORF Holding Ltd acquired 100% of the shares in Bimbosan AG, headquartered in Welschenrohr in the Canton of Solothurn, on 24 May 2018, thus gaining control over the company. The company is specialised in the sale of infant formula, especially in Switzerland.

The composition of the net assets sold was as follows:

Position	Total in TCHF
Cash and cash equivalents	681
Accounts receivables	1,106
Other receivables including deferred assets	325
Inventories	2,428
Property and plant	2,733
Other fixed assets	712
Accounts payables	–1,504
Other short-term liabilities including deferred liabilities	–784
Long-term liabilities	–1,000
Provisions for deferred taxes	–456
Identified net assets	**4,241**

This transaction resulted in goodwill amounting to CHF 28,776 thousand, which were recognized directly in equity. The purchase price was largely paid in cash. About 10% of the purchase price was paid with shares of HOCHDORF Holding Ltd.

8. Sale of HOCHDORF Baltic Milk UAB

On 19 June 2018, HOCHDORF Holding Ltd sold 100% of the shares in HOCHDORF Baltic Milk UAB, headquartered in Medeikiai, Lithuania, in connection with the reorganisation of the Dairy Ingredients Division. The company was active exclusively in the field of milk processing, its main products being milk proteins and cream.

The composition of the net assets sold was as follows:

Position	Total in TCHF
Cash and cash equivalents	1,449
Accounts receivables	1,224
Other receivables including deferred assets	290
Inventories	500
Property and plant	1,654
Other fixed assets	4,261
Accounts payables	–1,086
Other short-term liabilities including deferred liabilities	–184
Provisions for deferred taxes	–363
Identified net assets	**7,745**

When the company was acquired in 2010, no goodwill arose in connection with the purchase price allocation, which, according to our guidelines, would have had to be recognised in equity. The sale resulted in a total value correction of CHF 5,867 thousand, CHF 2,850 thousand of which were posted through EBIT and CHF 3,017 were posted through exchange rate losses. With this sale, the HOCHDORF Group has significantly reduced the business risks in the Dairy Ingredients Division.

In 2017, the company generated net sales of CHF 18.8 million, with EBIT of CHF –1.7 million. In the first half as at 30.06.2017 resulted net sales of CHF 9.4 milion, with EBIT of CHF –0.4 milion. As at 31 May 2018, the accumulated net sales amounted to CHF 8.0 million, with EBIT of CHF –0.8 million and a net loss of CHF –1.2 million.

9. Earnings per share

Earnings per share, basic

	2018	2017 (restated)
Weighted average shares outstanding	1’405,882	1,406,284
Net profit after minority interests	–2,231,758	7,946,120
Earnings per share in CHF, basic	**–1.59**	**5.65**

To determine the earnings per share, the earnings due to the HOCHDORF Group shareholders are divided by the average number of outstanding shares. Treasury shares are not included in the calculation of the average outstanding shares. The weighted average number of shares is based on the total of all transactions in the reporting year and additions due to the creation of new registered shares from the conversion of the convertible bond.

Earnings per share, diluted

	2018	2017 (restated)
Weighted average shares outstanding, basic	1,405,882	1,406,284
Dilution effect of convertible bond [1]	717,137	717,137
Weighted average shares outstanding, diluted	2,123,019	2,123,421
Net profit after minority interests	–2,231,758	7,946,120
Interest paid on convertible bond [2]	84,786	8,682
12% tax effect (interest on convertible bond*0.12/1.12)	–9,084	–930
Net profit after minority interests, diluted	–2,156,056	7,953,872
Earnings per share in CHF, diluted[3]	**–1.59**	**3.75**

1) The dilution is calculated from the mandatory convertible bond of CHF 218.49 million and the conversion price of CHF 304.67, from which a maximum of 717,136 new shares are generated. The conversion period runs from 3 January 2018 to 13 March 2020. As of 30 June 2018, the entire mandatory bond was therefore outstanding.

2) In this case, only the accrued interest on the external capital component for the current business year is taken into account in the interest costs. The actual interest payments are offset against the external capital component of the discounted interest payments.

3) Due to the negative earnings after minority interests, the diluted earnings per share correspond to the basic earnings per share.

10. Breakdown of net sales by product groups, regions and divisions

By product groups

TCHF	First half of 2018		First half of 2017	
Milk products/cream	114,518	40.67%	128,868	42.62%
Milk powder	75,542	26.83%	84,365	27.90%
Infant formula	74,975	26.62%	73,544	24.32%
Specialities	10,579	3.76%	8,036	2.66%
Bakery/confectionery goods	2,368	0.84%	2,328	0.77%
Other products/services	3,612	1.28%	5,242	1.73%
Total	**281,594**	**100.0%**	**302,383**	**100.0%**

By region

TCHF	First half of 2018		First half of 2017	
Switzerland/Liechtenstein	104,837	37.23%	101,241	33.48%
Europe	112,471	39.94%	129,974	42.98%
Asia	2,766	0.98%	14,399	4.76%
Middle East/Africa	54,034	19.19%	54,339	17.97%
USA/Canada	147	0.05%	239	0.08%
America, others	7,303	2.60%	798	0.27%
Other	36	0.01%	1,393	0.46%
Total	**281,594**	**100.0%**	**302,383**	**100.0%**

The remaining turnover comprises deliveries to customers who export the goods and where the destination country is not separately recorded.

By division

TCHF	First half of 2018		First half of 2017	
Dairy Ingredients	188,164	66.82%	216,615	71.64%
Baby Care	77,083	27.37%	74,072	24.49%
Cereals & Ingredients	16,347	5.81%	11,696	3.87%
Total	**281,594**	**100.0%**	**302,383**	**100.0%**

As a result of possible competitive disadvantages compared to non-listed and large listed competitors, customers and suppliers, presentation of the segment results was waived, pursuant to Swiss GAAP ARR 31/8. The Swiss milk market is small and tightly knit with few key companies and providers. The supplier side (milk producers) is organized within several milk producer organisations. On the processing side, the market is dominated by the cheeseries and four large dairies. 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.

Additional information

Important dates

19 March 2019: Annual results press conference
12 April 2019: Annual General Meeting
22 August 2019: 21st letter to shareholders concerning the half-year financial statements 2019

Auditing / Approval

The balance sheet and the income statement in this letter to shareholders have not been audited. The consolidated half-year financial statements were approved by the Board of Directors at its meeting on 17 August 2018.

Investor newsletter

Information about the HOCHDORF Group can be found at www.hochdorf.com. Under Investor Relations, investors can subscribe to the newsletter. Subscribers will receive an e-mail each time a press release is published online.

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