INTERIM REPORT

2019

1 January to 30 June 2019
(Swiss GAAP FER)

HOCHDORF
BEST PARTNER

First half of 2019 – summary

The HOCHDORF Group is in a serious crisis. The company performed significantly worse than expected in the reporting period, which was mainly due to the negative performance of its 51% subsidiary Pharmalys, resulting in a massive drop in profits.

The Group processed 374.8 million kg of milk, whey, cream etc. (PY: 365.3 million kg) and sold 86,661 tonnes of products (PY: 83,374 tonnes). Net operating sales revenue fell by CHF 35.2 million to CHF 242.9 million (PY: CHF 281.6 million), as a result of debtor provisions, mainly for Pharmalys. Due to increased depreciation and amortisation and provisions that became necessary, this resulted in an EBIT of CHF –52.4 million and company losses of CHF –63.6 million.

Looking ahead, following the reassessment of the risks and opportunities in the first half of the year, the Group will concentrate on the further development of the high-growth Baby Care business, while at the same time examining all strategic options for Pharmalys, and on the further optimisation of the Dairy Ingredients division.

HOCHDORF is facing major challenges. This makes it difficult to set an end-of-year forecast. The second semester is usually stronger for seasonal reasons. In the current financial year, the degree and pace of implementation of the measures taken will have a significant impact on sales revenues, the operating result and the net result.

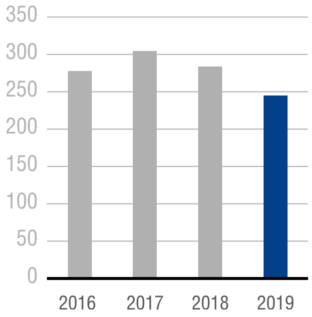
Key figures – Annual Report (30 June)

Key figures	30.06.2019	30.06.2018	Restated 30.06.2017	30.06.2016	30/06/2015
Processed milk and whey in tonnes	374,761	365,369	377,560	415,858	421,380
Products sold, in tonnes	86,661	83,374	111,948	125,604	125,767
Total assets (in TCHF)	564,289	586,685	473,792	359,664	322,702
Equity ratio	38.5%	45.82%	56.76%	55.03%	47.01%
Cash flow from operating activities (in TCHF)	–29,028	–114,305	–37,243	–17,047	–11,797
Market capitalisation (in TCHF)	154,954	403,885	438,678	263,709	176,191
Share price as at 30.06. in CHF	108.00	281.50	305.75	183.80	152.00
Earnings per share in CHF, basic	–30.89	–1.59	5.65	7.65	3.59
Earnings per share in CHF, diluted	–30.89	–1.59	3.75	7.65	3.20
Staffing levels at 30.06.	666	678	686	614	588

Financial data (30 June)

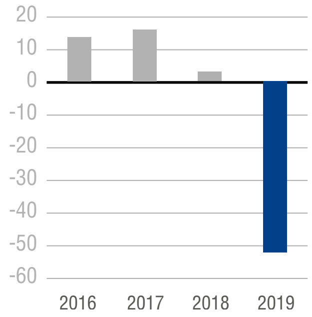
Net sales revenue

CHF Mio.



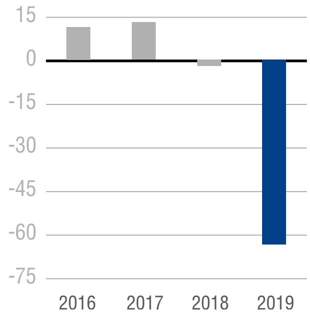
EBIT

CHF Mio.



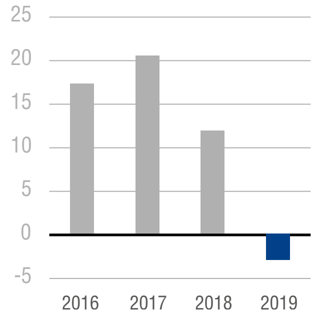
Net profit

CHF Mio.



Earned capital

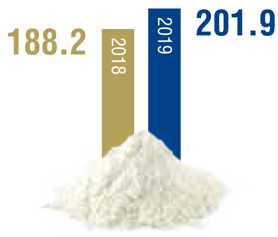
CHF Mio.



Market data (30 June)

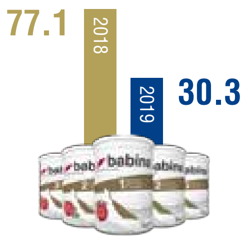
Net sales Dairy Ingredients

CHF Mio.



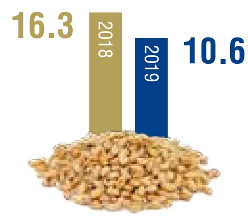
Net sales Baby Care

CHF Mio.



Net sales Cereals & Ingredients

CHF Mio.



HOCHDORF must realign itself

Dear Shareholders

HOCHDORF is in the midst of a serious crisis. The company performed significantly worse than expected in the reporting period, which was mainly due to the negative performance of its 51% subsidiary Pharmalys, resulting in a massive fall in profits. The reassessment of business risks at Pharmalys also meant that considerable debt provisions had to be made. Combined with the additional value adjustments that had become necessary, this resulted in total a company loss of CHF –63.6 million. The newly formed Board of Directors and the senior management team are working with high intensity to restructure and realign the Group. HOCHDORF's future can be secured if the steps announced on 8 July 2019 are implemented quickly and consistently alongside the debt restructuring measures that have been introduced.

The HOCHDORF Group processed 374.8 million kg of milk, whey, cream and buttermilk (liquid quantity) in the first half of 2019, 2.6% more than in the previous year (365.3 million kg). Uckermärker Milch GmbH is responsible for this increase. There was a corresponding increase of +3.9% in volume sold to 86,661 tonnes (previous year: 83,374 tonnes). The net income achieved fell mainly on account of the massive reduction in turnover at Pharmalys Laboratories SA and the debt provisions required of CHF 35.2 million to CHF 242.9 million (previous year CHF 281.6 million).

As a consequence, the gross operating profit fell significantly to a low of CHF 36.0 million (previous year 82.0 million). Combined with increased operational expenses and greater amortisations, there was a negative EBITDA of CHF –39.4 million (previous year 13.1 million) and a negative EBIT of CHF –52.4 million (previous year 2.9 million). The higher operating expenses are largely due to a sharp rise in costs at Pharmalys Laboratories SA (for more information on Pharmalys, see section 6 in notes "Explanatory remarks about the interim financial statements" and section 13, "Assessement as a going concern".

The new plants in Sulgen (spray tower line 9 and can line 2) led to higher amortisations compared to the previous year. Additional amortisations or provisions were made for the shutdown and the planned dismantling of production plants in Hochdorf – two technically outdated spray towers (in terms of safety requirements) and the VIOGERM® production plants – as well as intangible assets (Snapz brand). The Group's financial results were debited with provisions of EUR 10 million for the planned sale of Uckermärker Milch GmbH.

Overall company results for the reporting period therefore stood at CHF –63.6 million (after minority interests CHF –43.4 million corresponding to a loss per share of CHF –30.89). Net debt increased by just CHF 20 million to CHF 174.2 million; the equity ratio therefore fell to 38.5% (previous year 48.8%).

Realignment of the HOCHDORF Group

Looking ahead, following the reassessment of the risks and opportunities of the company by the newly constituted Board of Directors in the first half of the year, the HOCHDORF Group will concentrate on the further development of the high-growth Baby Care business, while at the same time examining all strategic options for Pharmalys, and on the further optimisation of the Dairy Ingredients Division. The measures and timelines for the realignment of the HOCHDORF Group announced on July 8, 2019 also relate to the prompt sale of Uckermärker Milch GmbH, the strategy review of the Dairy Ingredients Division and the discontinuation of the

Cereals & Ingredients Division with the evaluation of the strategic alternatives for the individual subsidiaries. The 90% stake in HOCHDORF South Africa Ltd was successfully sold to African Chocolate Café Ltd at the end of the period with a small profit.

Operational progress
The new Baby Care production line in Sulgen (tower 9 and can line 2) is running satisfactorily in line with expectations. The products produced meet the high quality standards required. Plant performance and output volume are being gradually increased. New products are being introduced into the plant and adjusted until all process and technical product targets are met. The team in Sulgen is working hard on the implementation and on meeting the targets set.

Bimbosan AG recorded a result above expectations in the first half of the year. The integration of the subsidiary acquired last year is progressing according to plan and with positive results.

In the Dairy Ingredients Division the follow-on solution to the "Schoggi Law" was the most important factor. The system change as of 1 January 2019 was completed and the threat of negative effects on results largely offset. External factors including the upturn in milk powder prices in the EU market also had a positive effect here.

Extension and increase of financing targeted
When the massive deterioration in business development and the resulting breach of the financial covenants became apparent in the middle of the year, the existing financing was immediately renegotiated with the banks. The syndicated loan of CHF 151 million was extended until 31 October 2019 and at the same time a waiver was signed which temporarily suspends the financial covenants. In order to press ahead with the planned restructuring of the Group, the company is aiming to extend the syndicated loan and conclude an additional credit facility of CHF 40 million.

Outlook
The measures introduced to realign and restructure the Group will have a heavy impact on the annual result, but the necessary amortisations and provisions are already reflected in the half-year results as far as possible. In addition, further operational corrective measures were initiated, such as an investment freeze on all non-operational processes, a comprehensive cost reduction programme and a programme to safeguard liquidity.

The HOCHDORF Group is facing major challenges. This makes it difficult to set an end-of-year forecast. The second semester is usually stronger for seasonal reasons. In the current financial year, the degree and pace of implementation of the measures taken, in particular those relating to the future of Pharmalys, will have a significant impact on sales revenues, the operating result and the net result.

We would like to thank you for your support in a very challenging time for the company. We assure you that the Board of Directors, the senior management team and the employees will all do everything they can to ensure success for the HOCHDORF Group in the future.

Kind regards from your BEST PARTNER
HOCHDORF Holding Ltd.

Bernhard Merki
Chairman of the Board of Directors

Dr Peter Pfeilschifter
CEO ad interim

Business areas

Dairy Ingredients

The product portfolio was further adjusted in the Dairy Ingredients Division and production was optimised. Segment-specific milk procurement and processing is essential for Dairy Ingredients – in the first half of 2019 we were successful in making good progress in overall process management. The system change to the follow-on solution to the "Schoggi Law" on 1 January 2019 was executed and the threat of negative effects on results largely offset. There was nonetheless growing pressure on market prices, not least as a result of this follow-on solution. HOCHDORF's domestic market share remained constant. At the beginning of the year the portfolio was also supplemented by the takeover of Thur Milch Ring AG.

The amount of milk, cream, whey and permeate (liquid quantity) processed in the first half of the year showed an increase at Division level of around 2.6% to 374.8 million kg (previous year 365.3 million kg). This led to a net sales revenue of CHF 201.9 million (previous year 188.2 million; +7.3%). The increase in sales was due to higher sales volumes, including destocking, and in part to higher international selling prices for skimmed milk powder.

Follow-on solution to "Schoggi Law"
On the customer and milk supplier side, the HOCHDORF Group succeeded in absorbing the change to the follow-on solution to the "Schoggi Law" on 1 January 2019 and largely offset the threat of negative effects on earnings. External factors including the upturn in milk powder prices in the EU also had a positive effect here. In addition, we are facing considerable price pressure in the Swiss domestic market, which is not least a direct consequence of the follow-on solution.

Companies
The Dairy Ingredients Division of *HOCHDORF Swiss Nutrition Ltd (HSN)* continued the seasonal price reductions introduced last year in the high milk season. HSN was only just able to pay competitive milk prices, which was also a result of the follow-on solution to the "Schoggi Law". Combined with the low milk volume in the initial months, this led to lower milk receipts (150.3 million kg in the first half of 2019, previous year: 166.3 million kg). Nevertheless, delivery was always guaranteed. The overall processed liquid quantity fell by 3.6% to 221.6 million kg (previous year 229.7 million kg), with the capacity utilisation still at a very good level.

As part of the ongoing cost-cutting programme, it was decided to discontinue production at two older production facilities in Hochdorf (Niro 2 and 3 spray towers) at the end of the year due to high pending investments in safety technology. Numerous projects are currently in the implementation phase to make plant utilisation more flexible and to further optimise the production portfolio.

Uckermärker Milch GmbH processed 153.2 million kg of liquid (previous year: 117.8 million kg; +30.0%). Milk volumes in particular rose sharply by 40% (136.9 million kg compared to 97.8 million kg in the previous year), favoured by the acquisition of several regional direct suppliers. This will increase the quantities of own milk, while reducing dependence on the spot market. Protein prices recovered appreciably in the first half of the year, while butter prices fell gradually and appreciably over this period.

Outlook
As announced on 8 July 2019, negotiations are underway on the sale of Uckermärker Milch GmbH. In addition, a new strategy for the Dairy Ingredients Division of HOCHDORF Swiss Nutrition Ltd will be developed over the next 12 months. As a result of this, we are not making a sales forecast for the 2019 financial year.

The market in the dairy industry is and will continue to be challenging. The HOCHDORF Group welcomes the "swissmilk green" initiative for sustainable Swiss milk to ensure better marketing of Swiss milk nationally and internationally. The coming weeks and months will show how the target price adjustment can be implemented as of September 1.

Baby Care

In future, the HOCHDORF Group will focus more strongly on the Baby Care Division, which has strong growth and margins. We will continue to internationalise this area. However, the Division fell far short of expectations in the first half of 2019 due to the slump in sales and, in particular, profits at Pharmalys. At the same time, extensive allowances had to be made for receivables from Pharmalys Laboratories SA.

The Baby Care Division achieved massively lower net sales revenues of CHF 30.3 million (previous year CHF 77.1 million; –60.7%) compared to the previous year, mainly due to the slump in sales in Pharmalys and the CHF 35.5 million in debtor provisions. The allowances were mainly made for receivables from Pharmalys Laboratories SA.

Companies
Pharmalys Laboratories SA achieved a considerably lower net sales revenue for the first half of the year compared to the previous year's performance. As a result of discussions about financing growth, Pharmalys reduced its distributors' inventories and accordingly ordered less, which led to significantly lower overall sales for both Pharmalys and the Baby Care Division at *HOCHDORF Swiss Nutrition Ltd*. In contrast, costs at Pharmalys increased massively in the first half of 2019, resulting in a significantly negative operating result.

As expected, capacity utilisation at the new production and filling line in Sulgen was still relatively low. Initial contracts with new customers were signed and the first products have now been produced. Overall, capacity was almost at the planned level. There was a longer, planned shutdown for a technical retrofit at spray tower line 8, which then influenced the production volumes available. This plant is now equipped for new, high-quality formulations, which makes it stand out significantly from the competition.

Bimbosan AG recorded a result above expectations in the first half of the year. The integration of the subsidiary acquired last year is progressing according to plan and with positive results. Bimbosan successfully maintained its strong home market position despite increasing competition. New registrations in export markets were launched and sales increased in existing foreign markets.

Outlook
The business model of Pharmalys Laboratories SA cannot be successfully managed and controlled by HOCHDORF in its current form because it offers HOCHDORF no transparency and no influence on the value chain. This situation is no longer tenable/justifiable for HOCHDORF as the majority shareholder. All strategic options for Pharmalys are therefore being examined as a top priority.

By focusing on the Baby Care Division, existing resources will be used in a more targeted manner in the future and the capacity utilisation of the new production and filling line is expected to increase continuously.

The SAMR brand audit for China has been announced for the 4th quarter; final dates have still to be agreed. We are currently preparing for this forthcoming brand audit with external support. In addition, the spray tower line 9 was recently successfully approved by the Chinese authorities for dairy products, which include Baby Care base powders.

We expect a strong second half of the year but are not providing a sales forecast as a result of the uncertainties outlined above and the regained strength of the Swiss Franc.

Cereals & Ingredients

The Cereals & Ingredients Division is being discontinued due to a lack of critical size and scalability. Valuable product categories such as non-milk-based special spray products and dietary supplements will be integrated and continued in the Dairy Ingredients Division. The 90% stake in HOCHDORF South Africa Ltd was sold to African Chocolate Café Ltd as of 30 June 2019, resulting in a capital gain of CHF 0.45 million at EBIT level.

The Cereals & Ingredients Division achieved net sales revenue of CHF 10.6 million in the first half of 2019 (previous year CHF 16.3 million, –34.9%). The slump in sales is attributable to the discontinuation or reduction of the first unprofitable business activities and to lower product sales.

Companies
The Cereals & Ingredients Division of *HOCHDORF Swiss Nutrition Ltd* developed several new products in the first half of 2019. The vitamin D3 drops are one of the highlights. The market launch in the Swiss retail sector will take place this autumn. Other new product developments include tomatoes with cardamom and apples with cinnamon, ginger or cardamom. These were launched at the PLMA 2019 trade fair in Amsterdam (Private Label Trade Fair). At the same time, further progress is being made in streamlining the portfolio.

Marbacher Ölmühle GmbH was not able to maintain the growth of recent years. The focus on organic and speciality oils resulted in lower net sales revenue with an optimised gross margin of the remaining product portfolio. Overall the company remains on track. *Zifru Trockenprodukte GmbH* launched the first production of cheese snacks for the US market on behalf of *Snapz Foods AG*.

Outlook
Value-added product categories from the Cereals & Ingredients Division such as non-milk-based special spray products and dietary supplements will be integrated and continued in the Dairy Ingredients Division. Strategic alternatives will be evaluated by the end of 2019 for the subsidiaries Marbacher Ölmühle GmbH, Snapz Foods AG as well as Zifru Trockenprodukte GmbH.

Financial statement

HOCHDORF Group 11–22

Consolidated balance sheet as of 30 June 10
Consolidated income statement 11
Consolidated cash flow statement 12
Consolidated statement of changes in equity 14
Notes to the consolidated financial statements 15

Consolidated balance sheet

Assets				
Cash and cash equivalents	11,092,097	2.0%	30,784,059	5.4%
Accounts receivables	68,540,472	12.1%	70,453,883	12.2%
Accounts receivables from related parties	46,798,101	8.3%	48,686,091	8.5%
Accounts receivables from associated companies	8,617,226	1.5%	1,711,357	0.3%
Other receivables from related parties	11,212	0.0%	77,988	0.0%
Other short-term receivables	16,665,924	3.0%	6,599,803	1.1%
Inventories	77,754,442	13.8%	67,372,914	11.7%
Accrued income and prepaid expenses	19,828,285	3.5%	27,831,064	4.8%
Current assets	**249,307,758**	**44.2%**	**253,517,159**	**44.1%**
Property and plant	110,906,428	19.7%	112,656,883	19.6%
Other fixed assets	183,840,192	32.6%	189,188,522	32.9%
Total fixed assets	**294,746,620**	**52.2%**	**301,845,404**	**52.5%**
Shareholdings	2,617,267	0.5%	2,407,793	0.4%
Financial assets	15,449,976	2.7%	12,467,515	2.2%
Intangible assets	2,167,537	0.4%	4,992,636	0.9%
Non-current assets	**314,981,398**	**55.8%**	**321,713,349**	**53.9%**
Total assets	**564,289,157**	**100.0%**	**575,230,508**	**100.0%**
Liabilities				
Accounts payables	48,440,323	8.6%	54,412,979	9.5%
Accounts payables from related parties	3,052,878	0.5%	4,483,895	0.8%
Accounts payables from associated companies	514,739	0.1%	452,608	0.1%
Short-term financial liabilities	160,931,871	28.5%	14,379,104	2.5%
Other short-term liabilities to related parties	4,070,309	0.7%	9,536,514	1.7%
Other short-term liabilities	15,522,478	2.8%	15,006,630	2.6%
Accrued liabilities and deferred income	15,575,857	2.8%	12,976,211	2.3%
Current liabilities	**248,108,454**	**44.0%**	**111,247,942**	**19.3%**
Non-current financial liabilities	23,499,611	4.2%	157,711,436	27.4%
Non-current financial liabilities to related parties	6,860,000	1.2%	6,860,000	1.2%
Non-current financial liabilities to associated companies	889,933	0.2%	0	0.0%
Provisions	67,624,182	12.0%	18,564,274	3.2%
Non-current liabilities	**98,873,725**	**17.5%**	**183,135,710**	**31.8%**
Share capital	14,347,600	2.5%	14,347,600	2.5%
Treasury shares	–7,105,418	–1.3%	–7,350,646	–1.3%
Capital reserves	85,328,595	15.1%	85,433,251	14.9%
Mandatory convertible bond	198,935,822	35.3%	198,935,822	34.6%
Hybrid capital	107,588,513	19.1%	107,588,513	18.7%
Profit reserves	–145,748,656	–25.8%	–148,468,206	–25.8%
Minority interests	7,351,256	1.3%	27,515,816	4.8%
Earnings current year	–43,390,735	–7.7%	2,844,707	0.5%
Shareholders' equity	**217,306,978**	**38.5%**	**280,846,857**	**45.8%**
Total liabilities and equity	**564,289,157**	**100.0%**	**575,230,508**	**100.0%**

Consolidated income statement

	Reviewed 2019 CHF	In %	Not reviewed 2018 CHF	In %
	01.01.19 – 30.06.19		01.01.18 – 30.06.18	
Net sales revenue	**242,864,054**	**95.4%**	**281,594,477**	**91.8%**
Other operating income	626,360	0.2%	212,979	0.1%
Change in inventories of semi-finished and finished products	11,141,230	4.4%	24,859,751	8.1%
Production revenue	**254,631,644**	**100.0%**	**306,667,208**	**100.0%**
Cost of materials and goods	–218,615,986	–85.9%	–224,665,050	–73.3%
Gross operating profit	**36,015,658**	**14.1%**	**82,002,158**	**26.7%**
Personnel expenses	–27,012,110	–10.6%	–27,493,921	–9.0%
Other operating expenses	–48,404,138	–19.0%	–41,457,730	–13.5%
Total operating expenses	**–75,416,248**	**–29.6%**	**–68,951,651**	**–22.5%**
EBITDA	**–39,400,591**	**–15.5%**	**13,050,507**	**4.3%**
Depreciation of fixed assets	–10,369,764	–4.1%	–6,596,059	–2.2%
Amortisation of intangible assets	–3,066,850	–1.2%	–673,064	–0.2%
Impairment of shareholdings	446,829	0.2%	–2,849,490	–0.9%
EBIT	**–52,390,376**	**–20.6%**	**2,931,893**	**1.0%**
Income from associates and joint ventures	209,473	0.1%	267,329	0.1%
Financial result	–12,412,654	–4.9%	–4,625,415	–1.5%
Earnings from operating activities	**–64,593,556**	**–25.4%**	**–1,426,193**	**–0.5%**
Non-operating result	–7,316	–0.0%	–9,882	–0.0%
Extraordinary result	1,181	0.0%	–106,045	–0.0%
Earnings before taxes	**–64,599,691**	**–25.4%**	**–1,542,120**	**–0.5%**
Income taxes	968,219	0.4%	–655,458	–0.2%
Net profit	**–63,631,472**	**–25.0%**	**–2,197,578**	**–0.7%**
Attributable to:				
Parent company shareholders	–43,390,735	–17.0%	–2,231,758	–0.7%
Minority interests	–20,240,737	–7.9%	34,179	0.0%
Net profit	**–63,631,472**	**–25.0%**	**–2,197,578**	**–0.7%**
Earnings per share (basic)	**–30.89**		**–1.59**	
Earnings per share (diluted)	**–30.89**		**–1.59**	

Consolidated cash flow statement

		Reviewed 2019 CHF	Not reviewed 2018 CHF
		01.01.19 – 30.06.19	01.01.18 – 30.06.18
Net profit		–63,631,473	–2,197,579
Depreciation of fixed assets and amortisation of intangible assets		13,436,614	7,269,124
Impairment of shareholdings		–446,829	2,849,490
Currency effect on sale of shareholdings		–21,162	3,017,328
Net interest expense		1,539,023	325,640
Other non-cash adjustments		–2,778,857	–380,803
Change in long-term provisions		49,154,384	472,271
Accounting losses (profits) from sales of fixed assets		–1,360	101,344
Income from associates and joint ventures		–209,473	298,421
Cash flow from operating activities before changes in working capital		**–2,959,134**	**11,755,236**
As % of net sales revenue		–1.22%	4.17%
Change in accounts receivables		3,723,130	5,145,952
Change in accounts receivables from related parties		1,888,507	–10,446,434
Change in accounts receivables from associated parties		–6,939,250	–1,904,248
Change in other short-term receivables		–10,161,580	–4,390,079
Change in other short-term receivables from related parties		66,957	0
Change in inventories		–10,760,717	–25,770,468
Change in prepayments		–8,005,339	1,352,828
Change in liabilities from deliveries and services		–7,898,822	–19,788,757
Change in liabilities from deliveries and services from related parties		–1,431,017	–199,971
Change in liabilities from deliveries and services from associated parties		62,131	226,854
Change in other short-term liabilities		624,608	–236,308
Change in other short-term liabilities to related parties		–5,466,807	–69,689,751
Change in deferred income		2,218,018	–360,156
Change in net current assets		**–26,069,503**	**–126,060,538**
Cash flow from operating activities		**–29,028,636**	**–114,305,302**
In % of net sales revenue		–11.95%	–40.59%
Investments in fixed assets		–4,401,389	–19,298,814
Divestments of fixed assets		6,625	24,261
Investments in intangible assets		–245,187	–340,055
Investments in/divestment of long-term financial assets		–66,766	–378,949
Net cash flow from the purchase (-) / sale (+) of investments	1)	302,611	–31,661,208
Interest and dividends received		931	230
Cash flow from investing activities		**–4,403,175**	**–51,654,534**
Free cash flow		**–33,431,812**	**–165,959,836**
In % of net sales revenue		–13.77%	–58.94%

1) Sale of HOCHDORF South Africa Ltd and Acquisition of Thur Milch Ring AG

Continuation of consolidated cash flow statement

	Reviewed 2019 CHF	Not reviewed 2018 CHF
	01.01.19 – 30.06.19	01.01.18 – 30.06.18
Change in short-term financial liabilities	2,395,256	–961,805
Change in long-term financial liabilities	19,493,163	131,240,610
Additions/disposals of minority interests in capital and profit	–14,096	0
Sale (purchase) of treasury shares net cash flow	235,447	3,329,006
Interest paid	–8,383,251	–4,382,801
Dividend payments	0	–5,598,980
Cash flow from financing activities	**13,726,519**	**123,626,029**
Currency translation	13,330	–61,241
Net change in cash and cash equivalents	**–19,691,963**	**–42,395,047**
Cash and cash equivalents at 1 January	30,784,059	63,860,406
Cash and cash equivalents at 30 June	**11,092,097**	**21,465,358**

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
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2017	**14,348** 1)	**–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 not reviewed	**14,348** 1)	**–6,553**	**284,519**	**107,589**	**–152,947**	**–270**	**246,684**	**22,127**	**268,811**
Equity as at 31.12.2018	**14,348** 1)	**–7,351**	**284,369**	**107,589**	**–144,877** 2)	**–747**	**253,331**	**27,516**	**280,847**
Change in the scope of consolidation					–13		–13	131	118
Goodwill/badwill from acquisition of shares of subsidiaries					–13		–13		–13
Sale of treasury shares		245	–105				141		141
Currency translation differences						–99	–99	–55	–154
Dividends							0		0
Net profit from current period					–43,391		–43,391	–20,241	–63,631
Equity as at 30.06.2019 reviewed	**14,348** 1)	**–7,105**	**284,264**	**107,589**	**–188,294** 2)	**–845**	**209,956**	**7,351**	**217,307**

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 2019

1. Accounting principles

These consolidated financial statements comprise the half-yearly statements for HOCHDORF Holding Ltd and its subsidiaries for the reporting period ending on 30 June 2019. The statutory auditors conducted a review of the consolidated half-year financial statements. 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 2018. Income taxes are calculated based on an estimate of the income tax rate expected for 2019 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 2018, 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 19 August 2019.

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	
				30.06.2019	31.12.2018
Thur Milch Ring AG, Ermatingen, Switzerland	Acquisition as of 01.01.2019	CHF	170	56.47%	0%
HOCHDORF South Africa (PTY), Cape Town, South Africa	Sale as of 30.06.2019	ZAR	450	0%	90%

For further information on the purchase of Thur Milch Ring AG, see section 7. For further information on the sale of HOCHDORF South Africa (PTY), see section 8.

3. Currency translation rates in CHF

	Income statement average exchange rates		Rates on the balance-sheet date	
	January to June 2019	January to June 2018	30.06.2019	31.12.2018
EUR 1	1.1273	1.659	1.1124	1.1269
USD 1	0.9955	0.9668	0.9783	0.9858
TND 1	0.3342	0.3916	0.3397	0.3294
UYU 1	0.0294	0.0330	0.0277	0.0304
ZAR 1	0.0704	0.0781	0.0695	0.0685

4. Contingent liabilities

None.

5. Events after the balance-sheet date

None.

6. Explanatory remarks about the interim financial statements
Despite the initial consolidation of the income statement of Thur Milch Ring AG and the deconsolidation of HOCHDORF South Africa (PTY) Ltd, most of the previous year's figures are directly comparable.

In terms of turnover and profit, the performance in the first half of the year is usually inferior to that of the second half. This mainly due to the seasonal increase in the milk supply from March to mid-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 orders and deliveries, the Pharmalys business is much more intensely focused on the second half of the year. However, when compared over several years, there can be considerable variations between the two halves of the year.

The result of the first half of 2019 is marked by the ongoing price distortions between fat and protein in the EU and the overcapacities in the German milk market and the associated high price pressure from the retail trade. This has also had a significant influence on the Swiss situation and thereby on the "Schoggi Law" in particular and the contributions under this law. This has been further exacerbated by the new market regulation in force since 1 January 2019, which means that less funds are available for the "Schoggi Law", which has significantly increased the pressure on domestic prices. As the largest supplier of roller-dried whole milk powder to the chocolate industry, HOCHDORF has been hardest hit by this development and has had to adjust milk prices accordingly. As a result of this, as well as the lower milk volume in the 1st quarter due to last summer's drought, the Group recorded correspondingly lower milk receipts; supply security was always assured nonetheless. As a consequence, the **Dairy Ingredients (DI)** division closed the first half of the year with a negative result. This was despite the measures taken to reduce costs and adjust the portfolio. The senior management team decided, among other things, to shut down the spray towers Niro 2 and Niro 3 in Hochdorf at the end of 2019 due to pending high investments in safety technology. The shutdown causes additional depreciation of around CHF 0.5 million as well as costs for dismantling and conversion of around CHF 0.5 million.

The **Baby Care (BC)** division performed well below expectations for the first half year, with the low returns mainly attributable to Pharmalys. In-market sales are still growing according to Pharmalys, but due to discussions about financing growth, the company has reduced its distributors' inventories accordingly and placed few new orders and product call-offs. This led to massively lower sales both in Pharmalys and in the BC division of HOCHDORF Swiss Nutrition. By contrast, costs in Pharmalys rose sharply, resulting in a significantly negative operating result. In addition, an allowance of CHF 32.2 million had to be made due to the high level of overdue receivables from Pharmalys and the lack of control over distributors and thus over inventories. In addition, a provision of CHF 3.0 million was made for operating business within HOCHDORF Swiss Nutrition. Overall, the results for HOCHDORF Swiss Nutrition and Pharmalys Laboratories are thus significantly below the previous year. As expected, Bimbosan AG, acquired in 2018, is developing positively. The international expansion of the Bimbosan brand has started according to plan and is beginning to bear fruit.

The newly-acquired subsidiaries are not developing as planned in the **Cereals & Ingredients (CI)** Division. In addition, the traditional business in the CI Division, with its complexity and small quantities, caused increasing problems in optimising production capacities. The Board of Directors has therefore decided to discontinue the CI Division and to continue producing only a few profitable product groups, integrating them into the DI Division. This decision will lead to the cessation of wheat germ production in Hochdorf and to the sale of subsidiaries abroad. The discontinuation of wheat germ production means an additional depreciation of around CHF 1.5 million and costs for dismantling and conversion of around CHF 0.5 million. In addition, the value of the "Snapz" brand at CHF 2.35 million as reported in Snapz Foods AG's balance sheet was written off in full. The subsidiary HOCHDORF South Africa was sold and deconsolidated retrospectively as of 30.6.2019. The sale resulted in an EBIT capital gain of CHF 0.45 million and a currency gain of CHF 0.02 million.

For the second half of the year, the Group expects milk receipts to remain tight, with higher sales and earnings, particularly in the BC and DI Divisions. The restructuring work for DI continues as before. This means that there is work still to be done with regard to sales and milk prices in particular, but also in product expansion and portfolio streamlining. Uckermärker Milch GmbH (UMP) is only just holding its own in difficult circumstances. The Board of Directors has therefore decided to look for a buyer for UMP and appropriate negotiations have now begun. A provision of EUR 10 million has been set aside for the transaction.

Due to the seasonal increase in receivables and inventories, the cash from operating activities amounted to CHF –29.0 million (previous year CHF –114.3 million). At CHF –4.4 million, cash flow from investment activities in the first half of the year was significantly lower than in the previous year (CHF –51.7 million) due to lower investments and the acquisition of Bimbosan AG in the previous year.

The balance sheet total reduced from CHF 575.2 million as at 31 December 2018 to CHF 564.3 million as at 30 June 2019. In the same period the net debt increased from CHF 156.7 million to CHF 174.2 million. For this reason, the equity ratio fell from 48.8% as at 31 December 2018 to 38.5% as at 30 June 2019.

7. Acquisition of Thur Milch Ring AG

HOCHDORF Holding Ltd acquired 56.47% of the shares in Thur Milch Ring AG, based in Ermatingen, Canton Thurgau, on 15 January 2019, effective retrospectively from 1 January 2019, thus gaining control over the company and completing the entire value chain for the Baby Care segment. The company is a milk purchaser from local milk producers.

The composition of net assets acquired was as follows:

Position	Total in TCHF
Cash and cash equivalents	406
Accounts receivables	1,981
Other receivables including deferred assets	26
Financial assets	246
Accounts payables	–2,078
Other short-term liabilities including deferred liabilities	–384
Identified net assets	**197**

This transaction resulted in goodwill amounting to CHF 13 thousand, which were recognized directly in equity. The purchase price of CHF 125 thousand was largely paid in cash.

8. Sale of HOCHDORF South Africa (PTY) Ltd

On 8 July 2019, HOCHDORF Holding Ltd sold a 90% share of HOCHDORF South Africa (PTY) Ltd, located in Cape Town (South Africa), as part of the reorganisation of the Cereals & Ingredients Division. The company was exclusively active in producing and selling chocolate.

The composition of net assets sold was as follows

Position	Total in TCHF
Cash and cash equivalents	28
Accounts receivables	60
Other receivables including deferred assets	9
Inventories	232
Other fixed assets	656
Accounts payables	–2
Other short-term liabilities including deferred liabilities	–7
Non-current financial liabilities	–1,419
Provisions for deferred taxes	–23
Identified net assets	**–466**

When the company was formed in 2015, 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 468 thousand, CHF 447 thousand of which were posted through EBIT and CHF 21 thousand were posted through exchange rate gains. The sale price also amounted to the equivalent of CHF 1.467 million (USD 1.5 million).

In 2018, the company generated net sales of CHF 341 thousand with EBIT of CHF –243 thousand. The half year ending 30.6.2019 resulted in net sales of CHF 188 thousand with an EBIT of CHF –53 thousand and a net profit of CHF 151 thousand. The net profit resulted from a loan waiver by HOCHDORF Holding Ltd in the amount of CHF 389 thousand.

9. Earnings per share

Earnings per share, basic

	2019	2018
Weighted average shares outstanding	1,404,766	1,405,882
Net profit after minority interests	–43,390,735	–2,231,758
Earnings per share in CHF, basic	**–30.89**	**–1.59**

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

	2019	2018
Weighted average shares outstanding, basic	1,404,766	1,405,882
Dilution effect of convertible bond 1)	717,137	717,137
Weighted average shares outstanding, diluted	2,121,902	2,123,019
Net profit after minority interests	–43,390,735	–2,231,758
Interest paid on convertible bond 2)	167,456	84,786
12% tax effect (interest on convertible bond*0.12/1.12)	–17,942	–9,084
Net profit after minority interests, diluted	–43,241,221	–2,156,056
Earnings per share in CHF, diluted 3)	**–30.89**	**–1.59**

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 2019, 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

The segment reporting must be adjusted accordingly in the statements and assessment at the level of net sales revenue by the formation of provisions for risks from the operating business of HOCHDORF Swiss Nutrition Ltd of CHF 3.0 million and Pharmalys Laboratories SA of CHF 32.2 million. Net sales of infant formula are effectively higher by this amount.

By product groups

TCHF	First half of 2019		First half of 2018	
Milk products/cream	119,179	49.07%	114,518	40.67%
Milk powder	80,465	33.13%	75,542	26.83%
Infant formula	37,590	15.48%	74,975	26.62%
Specialities	6,851	2.82%	10,579	3.76%
Bakery/confectionery goods	2,318	0.96%	2,368	0.84%
Other products/services	–3,539	–1.46%	3,612	1.28%
Total	**242,864**	**100.0%**	**281,594**	**100.0%**

By region

TCHF	First half of 2019		First half of 2018	
Switzerland/Liechtenstein	101,927	41.97%	104,837	37.23%
Europe	121,608	50.07%	112,471	39.94%
Asia	4,500	1.85%	2,766	0.98%
Middle East/Africa	12,580	5.18%	54,034	19.19%
USA/Canada	322	0.14%	147	0.05%
America, others	1,924	0.79%	7,303	2.60%
Other	3	0.00%	36	0.01%
Total	**242,864**	**100.0%**	**281,594**	**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 2019		First half of 2018	
Dairy Ingredients	201,934	83.15%	188,164	66.82%
Baby Care	30,289	12.47%	77,083	27.37%
Cereals & Ingredients	10,641	4.38%	16,347	5.81%
Total	**242,864**	**100.0%**	**281,594**	**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.

11. Key figures

TCHF (unless otherwise stated) January to June	2019	2018	Change
Processed milk and whey in million kg	374.8	365.3	+2.6%
Net sales revenue	242,864	281,594	–13.1%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	–39,401	13,051	n/a
As % of production revenue	–15.5%	4.3%	
Earnings before interest and taxes (EBIT)	–52,390	2,932	n/a
As % of production revenue	–20.6%	1.0%	
Earnings	–63,631	–2,198	n/a
As % of production revenue	–25.0%	–0.7%	
Staffing levels at 30 June (nominal)	666	678	–1.5%

12. Discontinued Division

In the press release dated 8 July 2019, the Board of Directors announced its intention to discontinue the Cereals & Ingredients (CI) Division. The CI Division, which was originally established to provide milk-independent support, is being discontinued due to a lack of critical size and scalability. Valuable product categories such as non-milk-based special spray products and health supplements will be integrated into Dairy Ingredients and will be continued. The evaluation of strategic alternatives for the subsidiaries Marbacher Ölmühle GmbH, Snapz Foods AG and Zifru Trockenprodukte GmbH should be completed by the end of the year. The 90% interest in HOCHDORF South Africa Ltd. was sold retrospectively as of June 30, 2019 to African Chocolate Café Ltd.

The CI Division generated net sales of CHF 30.6 million and an EBIT of CHF –2.4 million as at 31.12.2018. As at 30.06.2019, net sales amounted to CHF 10.6 million with an EBIT of CHF –5.1 million.

13. Assessment as a going concern

13.1. Background

In October 2016 the HOCHDORF Group acquired 51% of Pharmalys Laboratories SA. The final purchase price was calculated in accordance with the purchase agreement by multiplying the company's operating results (EBIT) in 2016 and 2017. Sales at Pharmalys rose by more than 50% in 2017. The operating result increased by almost 150% in the same year. Due to the multiplication clause mentioned above, this resulted in a very high purchase price of CHF 245 million and, as a consequence, a high level of external dept. Orders and sales in 2018 and 2019 were well below expectations. Sales were CHF 61.1 million in 2016, CHF 92.3 million in 2017, CHF 77.5 million in 2018 and CHF 24.5 million in the first half of 2019, more than 50% below budget. The operating result achieved was clearly negative in the first half of 2019.

Pharmalys Laboratories SA presents the HOCHDORF Group with major challenges. The business model does not give the HOCHDORF executive bodies any transparency or influence over the value chain of the company, which operates primarily in emerging markets in Africa and the Middle East. Major activities such as finance, sales and consulting have been outsourced to third parties. The majority of sales are handled through distributors in which the seller of Pharmalys, who is currently Vice Chairman of the Board of Directors of Pharmalys and owns 49% of its shares, holds a majority or a significant stake.

The business model is extremely capital-intensive due to the necessary financing of net current assets by the HOCHDORF Group and represents an additional challenge. This, combined with a significantly negative development of the operating result in the first half of 2019, raises the Group's level of debt and has a significant impact on liquidity.

In addition, there are CHF 56.1 million in receivables from Pharmalys in emerging markets, which are largely overdue and extremely difficult to collect. These outstanding debts represent another significant risk. The company therefore had to set up appropriate allowances in the first half of 2019.

For the reasons stated above, the Pharmalys business model in its current form cannot be managed successfully and sustainably within the HOCHDORF Group. The Board of Directors is reviewing all the options for Pharmalys as a matter of urgency.

The realignment of the HOCHDORF Group announced on 8 July 2019 also includes focusing on the high-growth Baby Care Division, with the sale of the production plant in Germany and the development of a new strategy in the Dairy Ingredients Division. The Cereals & Ingredients Division will be discontinued due to a lack of critical size and scalability, with some of the business activities integrated into Dairy Ingredients or divested.

13.2. Debt restucturing

In spring 2019 it became apparent that some financial covenants of the existing credit facility could not be met. In May 2019, a waiver was negotiated with the banks to temporarily suspend the financial covenants. The waiver was approved and the syndicated loan of CHF 151 million was extended until 31.10.2019. As a result of this short-term extension, the total liabilities from the syndicated loan (CHF 151 million) were reclassified from long-term financial liabilities to short-term financial liabilities. It was agreed with the banks to maintain the existing line of CHF 151 million and to cancel the unused limits in the existing syndicated loan of tranche A (CHF 10 million) for use by HOCHDORF Holding Ltd and tranche C (CHF 30 million) for use by Pharmalys Laboratories SA.

The Board of Directors is working on the sale of subsidiaries to reduce net debt.

In addition, a detailed and comprehensive action and medium-term plan for the entire Group is being drawn up with external support.

At the same time negotiations on the provision of a new credit line of CHF 40 million as tranche D with HOCHDORF Swiss Nutrition Ltd as the new, additional borrower in return for collateral in the form of promissory notes and accessories (plants/installations) as well as a guarantee from HOCHDORF Holding Ltd are in process.

13.3. Uncertainties

The syndicate banks only extended the credit facilities until the end of October 2019. The success of the restructuring and the maintenance of sufficient liquidity is subject to considerable, material uncertainties and depends on the following conditions:

- Successful implementation of the planned restructuring measures
- Extension of syndicated loan of CHF 151 million as at 31 October 2019

Because the measures outlined above may not be implemented in full and on time, there are significant doubts for the group to continue as a going concern.

It is also important that the additional credit facility of CHF 40 million in the form of tranche D can be completed.

Today, the Board of Directors and the senior management team expect that the proposed measures can be implemented and that long-term financial stability can be secured. For this reason, the Board of Directors and senior management team believe that a continuation of the HOCHDORF Group can currently be assumed.

Additional information

Important dates
19 March 2020: Publication Annual Report 2019
12 April 2020: Annual General Meeting
22 August 2020: Publication Interim Report 2020

Auditing / Approval
The statutory auditors conducted a review of the consolidated half-year financial statements.
The consolidated half-year financial statements were approved by the Board of Directors on 19 August 2019.

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.

The information within our Interim Report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes.
If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our Interim Report, which is the official and only binding version.

Contacts

Public Relations / Media
Dr Christoph Hug
Head of Corporate Communications
Tel. +41 41 914 65 62
christoph.hug@hochdorf.com

Investor Relations
Marcel Gavillet, CFO
Tel. +41 41 914 65 16
marcel.gavillet@hochdorf.com

Imprint

Layout
W4 Marketing AG, Zurich

Print
SWS Medien AG Print, Hochdorf

HOCHDORF Holding Ltd
Siedereistrasse 9
6281 Hochdorf / Switzerland
T +41 41 914 65 65
F +41 41 914 66 66
www.hochdorf.com