ANNUAL REPORT

2015

HOCHDORF
BEST PARTNER

page references

further informations

important data/fact

Annual Report 2015

Facts and figures

In 2015, the HOCHDORF Group embarked upon a new era. Its major features are a leaner organisational structure in Switzerland and two new production plants in Germany. HOCHDORF focuses on Dairy Ingredients, Baby Care and Cereals & Ingredients. Annual turnover has passed the CHF 500 million mark for the first time.

The HOCHDORF Group
The HOCHDORF Group, which was founded in 1895 and is headquartered in Hochdorf (near Lucerne) maintains two milk plants in Switzerland and one milk plant in both Lithuania and Germany (60% stake). In addition, high-quality infant formula is produced at the Swiss milk plants. Furthermore, HOCHDORF has a cereal plant in Switzerland (processing wheat germ) and an oil mill in Germany. In Switzerland, HOCHDORF is among the leading food companies and at 31 December 2015 had more than 620 employees worldwide. HOCHDORF products contribute towards health and wellbeing, from babies to senior citizens. The Group’s customers include the food industry and both wholesalers and retailers. The products are sold in over 90 countries.

Our strategic objective
The HOCHDORF Group is an independent global company operating in the business areas Dairy Ingredients, Baby Care and Cereals & Ingredients. As a Swiss food company we are guided by the Swiss values of «reliability», «quality» and «precision». As a company operating in niche markets, it is HOCHDORF’s aim to keep the agility of a medium-sized company and conquer new markets by showing the necessary courage. On the market side, the HOCHDORF Group, with its products, focuses on premium markets and offers its customers a correspondingly high standard of service. In the medium term, HOCHDORF is aiming for growth by offering products with high added value such as top quality milk derivatives, infant formula and healthy children’s foods. To improve earnings, HOCHDORF is aiming for forward integration.

Share prices and charts

5-year-comparison

%

Year comparison

%

HOCHDORF share
Comparison value (SPI)

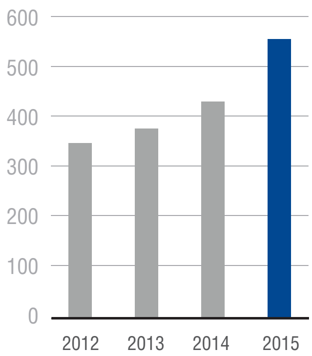
Key indicators in the annual report

Key indicators	2015	2014	2013	2012
Processed milk and whey in tonnes	761,240	506,963	454,647	442,350
Products sold in tonnes	242,821	99,155	91,699	90,196
Total assets (in CHF 1,000)	340,396	331,109	243,485	239,851
Equity ratio	56.60%	43.20%	42.60%	41.60%
Cash flow from operating activities (in CHF 1,000)	18,134	20,546	18,196	15,372
Market capitalisation (in CHF 1,000)	242,044	147,787	93,600	79,429
Share price at 31.12. in CHF	168,70	138.00	104.00	88.25
Earnings per share in CHF	11.73	17.45	6.95	-39.69
Staffing levels at 31.12.	625	573	362	381

Financial data

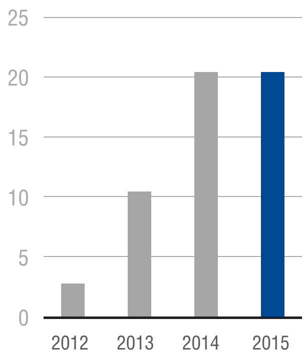
Gross sales revenue (Turnover)

CHF Mio.



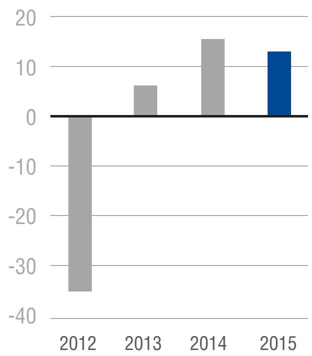
EBIT

CHF Mio.



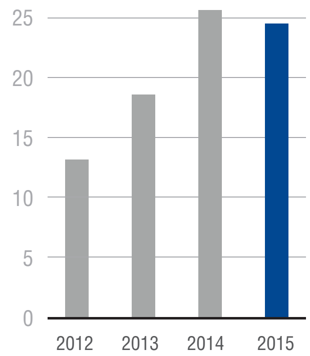
Net profit

CHF Mio.



Earned capital (cash flow)

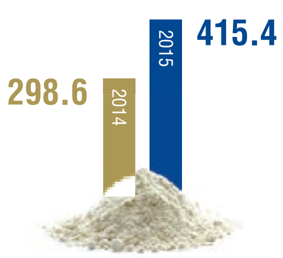
CHF Mio.



Market data

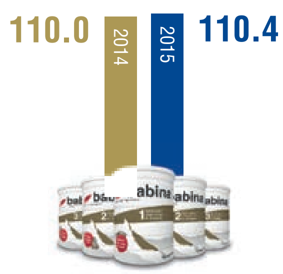
Turnover Dairy Ingredients

CHF Mio.



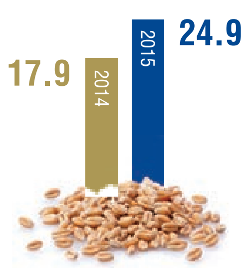
Turnover Baby Care

CHF Mio.



Turnover Cereals & Ingredients

CHF Mio.



Dear Shareholders,

Financial year 2015 ushered in a new era for HOCHDORF. The restructuring in Switzerland, the clear definition of the three business areas and increased internationalisation have given the company a new dynamism. The redesigned annual report is a visible sign of this new HOCHDORF. The report section informs you about the strategy, financial situation and the three business areas of the HOCHDORF Group, Dairy Ingredients, Baby Care and Cereals & Ingredients. Furthermore, it provides you with information on corporate governance, compensation and the financial statements for 2015.

page 61
Income statement

Earnings at the previous year's level
Despite all adverse circumstances, the HOCHDORF Group posted results for the last financial year on a par with those of the previous year. With gross sales of CHF 551.2 m, we surpassed half a billion Swiss francs for the first time ever. The increase in turnover can be explained by the acquisition of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH. Without these acquisitions turnover would have declined. The main reason for this would have been the lower milk prices which resulted in lower selling prices for Dairy Ingredients. Another negative factor affecting the Group's turnover was the removal of the minimum exchange rate of the Swiss franc against the euro and the deliberate reduction in sales volumes at the milk plant in Prenzlau. EBIT was up slightly to CHF 20.1 m (+0.65%). This shows that the measures taken to increase efficiency are proving to be effective. However, it is also apparent that the companies acquired are still not making a contribution towards increasing revenue, as was announced. The Group made a net profit of CHF 13.0 m. The year-on-year decline is entirely due to exchange rate effects.

page 24
Financial report

page 28 ff.
Reports on the three business divisions

Effective new organisational structure in Switzerland
At the beginning of financial year 2015, HOCHDORF Swiss Nutrition Ltd introduced a new organisational structure. The results achieved in a relatively difficult economic environment show that the restructuring has been justified. The market focus on our three business areas, Dairy Ingredients, Baby Care and Cereals & Ingredients, has paid off for the entire HOCHDORF Group.

page 30
Report Uckermärker Milch GmbH

Integration of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH was also initiated at the beginning of 2015. We were able to react relatively well to the currently challenging situation on the international milk market. We benefited from the fact that we only procured a small quantity of milk directly from milk producers. This is why we were able to reduce the production of milk powder due to poor product prices.

page 36
Report Marbacher Ölmühle GmbH

Marbacher Ölmühle is already connected up to the HOCHDORF merchandise management system. Since abandoning HOCHDORF Deutschland GmbH, we are now continuing part of this business from Marbach.

Development of a new strategy

We used some of the time from the middle of the year to develop a new strategy. With the implementation of Strategy 2016 – 2020, we have set a target of achieving much higher margins as a Group. All business areas will have to play their part if we are to achieve the rates of return we have set ourselves. The next few years will therefore be characterised by an offensive product strategy and forward integration. Both of these are essential if we are to achieve our target. Whether forward integration will be accomplished by our own efforts or whether we tackle it by joining forces with a customer is still undecided at the current point in time. However, the first of these two options will certainly take more time.

page 10 ff.
Strategy 2016-2020

Besides the strategy, we also developed and adopted organisational regulations and a code of conduct in the past financial year. Receipt of the code of conduct and acknowledgement of its contents were attested by the signatures of the Board of Directors and all executives and staff.

Dynamism in the projects

In the half-yearly report we provided feedback on, among other things, the IonEx, LagLo, Kid's Food and Kapamax projects. We would now like to give you a brief update on these projects.

- IonEx: Trial production runs have started according to plan on the project for the production of lactose. The first infant formula has now been produced with our own lactose. The plant will be put into operation on 1 June 2016.
- LagLo: Phase 1 has been concluded with the commissioning of the logistics building. We started phase 2, the high bay racking, at the end of February 2016. High bay racking is mainly necessary due to the additional capacity planned in Baby Care.
- Kid's Food: The first marketable products are ready and will be launched in the current financial year.
- The Kapamax project (maximisation and optimisation of capacities) is an ongoing project. At the location in Hochdorf, this expansion of capacity currently entails optimising the supply chain as well as the output of the plants for the production and filling of infant formula.

page 16
Details concerning Kid's Food

A new major project illustrates the fast pace of the environment in which the HOCHDORF Group operates. In the middle of 2015, we started to plan the construction of a new production line for infant formula at the Prenzlau location, instead of converting the existing spray tower. We have now had to delay this project for a number of reasons. The main reason is the market success of our customers who rely on Swiss-made products. In view of the limited staffing and financial resources, the first thing we are now planning is a new spray tower with a filling line at our plant in Sulgen.

Change to the Board of Directors

Urs Renggli will be resigning from the Board of Directors at the forthcoming Annual General Meeting. We have been able to count on his expertise in matters of finance for the last eight years. We thank him for his work and wish him all the best for the future and good health.

!

The Board of Directors recommends Dr Daniel Suter to be elected as Urs Renggli 's successor. Dr Suter is an auditing partner at PricewaterhouseCoopers AG in Basel, and in this role he acts as chief auditor for a number of companies. Furthermore, since 2009 he has been a visiting lecturer for auditing at the University of Zurich, holding courses on internal and external audits.

Outlook

page 14 ff.
Interview with Thomas Eisenring

International markets are still showing no sign of recovery at the moment. As market prices for milk products are still low, we now expect a gross sales revenue of CHF 560 to 600 m for the current financial year. Thanks to the ongoing internal projects, we expect an EBIT of 3.8 to 4.0% of production revenue. Neither of these figures include any possible forward integration.

We thank all customers, shareholders, employees and (milk) suppliers for the trust they have placed in the HOCHDORF Group in 2015. We also thank you for the future support that the HOCHDORF Group will be dependent on, in becoming closer to the end consumer.

Josef Leu
Chairman of the Board of Directors

Dr. Thomas Eisenring
CEO

Despite all adverse circumstances, the HOCHDORF Group posted results for the last financial year on a par with those of the previous year. In the dynamic environment, the new organisational structure has proven successful for the first time.

HOCHDORF shares

Share price development in 2015

page 2

Share prices and charts

2015 was a good year for the HOCHDORF Holding Ltd stock. After the share price took a tumble in the middle of January, it staged a continual recovery, reaching a new high in November at CHF 178. The price at close of trading on 31 December 2015 was CHF 168.70 (31 December 2014: 138.00). The stock therefore rose by+22.25%. This meant that the stock significantly outperformed the Swiss Performance Index (SPI) yet again. At 31.12.2015 HOCHDORF Holding Ltd had 1,434,760 shares (PY: 1,070,922). Market capitalisation rose in line with this to CHF 242.0 m (PY: 147.8 million; +63.7%).

Listing

HOCHDORF Holding Ltd is listed on the SIX Swiss Exchange (ISIN CH0024666528). At year-end 2015, market capitalisation amounted to CHF 242.0 m.

ISIN	CH0024666528
Securities number	2,466,652
Bloomberg code	HOCN SW
Thomson Reuters code	HOCN.S

Dividend

The Board of Directors will request the Annual General Meeting to approve a dividend payment of CHF 3.70 per share from capital investment reserves. The payment of a dividend at the previous year's level entails a dividend return of 2.19% as of the closing date, 31 December 2015. This cautious and sustainable dividend policy will be continued.

!

The dividend to be paid from capital investment reserves is tax free for natural persons resident in Switzerland who hold shares as personal assets.

Shareholders according to category at 31 December 2015

page 65

Information on significant shareholders

Description	Listed Shareholders
Natural persons	1,498
Legal entities	81
Pension funds	10
Insurance companies	4
Investment company/fund	22
Other trusts	9
Banks	18
Public corporation	1
Total	**1,643**

Shareholders according to breakdown at 31 December 2015

Number of shares	Listed Shareholders
1–10	151
11–100	712
101–1,000	665
1,001–10,000	97
10,001 and over	18
Total	**1,643**

Disclosure of equity holdings

According to Article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act), anyone who, in direct or indirect consultation with third parties, acquires or sells on their own account the shares of a company domiciled in Switzerland whose equities are at least partially listed in Switzerland and thus reaches, falls short of or exceeds the limit of 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3 % of the voting rights, whether these are exercisable or not, must disclose this to the company and to the stock exchanges where the equities are listed.

SIX

www.six-swiss-exchange.com

Financial calendar

› Annual General Meeting
6 May 2016

› Dividend payment
12 May 2016

› Half-yearly statement 2016
17 August 2016

Key indicators for the HOCHDORF Holding Ltd stock

		2015	2014	2013	2012	2011
Share capital at 31.12.	CHF 1,000	14,348	10,709	9,000	9,000	9,000
Number of shares at 31.12.	Units	1,434,760	1,070,922	900,000	900,000	900,000
Nominal value per share	CHF	10.00	10.00	10.00	10.00	10.00
Profit/loss (–) per share	CHF	11.73	17.45	6.95	–39.69	13.91
EBITDA per share	CHF	21.23	25.40	20.11	15.91	16.15
EBIT per share	CHF	14.04	18.69	11.44	3.07	2.11
Cash flow (earned capital) per share	CHF	17.33	23.63	20.14	15.01	14.35
Equity per share	CHF	134.37	133.69	115.30	110.85	152.60
Dividend per share	CHF	3.70[1)]	3.70	3.20	3.00	3.00
Peak price	CHF	178.00	141.30	105.30	89.95	114.00
Lowest price	CHF	107.50	100.80	79.20	66.00	72.05
Price at close of trading on 31.12.	CHF	168.70	138.00	104.00	88.25	75.70
Average trading volume per day	Units	2,312	1,202	804	940	1,133
P/E (price/earnings ratio) at 31.12.		14.4	7.9	15.0	n.a.	5.4
Dividend return	%	2.19	2.68	3.08	3.40	3.96

1) Proposal of the Board of Directors to the Annual General Meeting.

Business model, strategy and markets

The HOCHDORF Group is one of Switzerland's leading food companies. The company operates in the areas of milk derivatives, baby care and cereals & ingredients. The Group's core area of expertise lies in developing, producing and marketing powder products based on milk and whey, as well as producing and marketing high-quality cereals. With its participation in Uckermärker Milch GmbH, HOCHDORF is also operating in the butter and curd business in Germany.

The HOCHDORF Group sees itself as a global, independent, nimble-footed Swiss company with the organisation of a mid-sized enterprise.

HOCHDORF concentrates its activities on its business areas Dairy Ingredients, Baby Care and Cereals & Ingredients. As an international food company, the entire Group identifies with the typically Swiss values of «reliability», «quality» and «precision». Today, the Group largely operates in the business-to-business sector. The Group targets its products at rapidly growing, non-saturated markets. In the process, HOCHDORF focuses on the premium segments and offers its customers correspondingly high benefits and service.

Dairy Ingredients

The roots of the HOCHDORF Group lie in the production of different milk powders. In 2015, this business unit was responsible for around three quarters of gross sales revenue. The following companies form part of the business unit Dairy Ingredients:

page 28 ff.
Report Dairy Ingredients

- The Dairy Ingredients Division of HOCHDORF Swiss Nutrition Ltd operates mainly in Switzerland. With its years of experience, the company specialises in products with dairy ingredients. It is an important supplier of cream, roller-dried whole milk powder, fat powder, milk and whey protein powder, whey powder and permeate powder to the (Swiss) food industry.
- HOCHDORF Baltic Milk UAB is based in Medeikiai (Lithuania). It develops, produces and sells powder products from milk and whey. The company's focus lies on milk filtration and milk drying processes. The majority of the products are exported.
- Uckermärker Milch GmbH, Prenzlau (D), processes milk to make butter, curd and dried milk products. The products are sold domestically and abroad. The HOCHDORF Group owns a 60% share of this company.

Baby Care

HOCHDORF has produced children's food since 1908.

HOCHDORF also has a long tradition in the production of infant formula stretching back many years. Greater emphasis has been placed on its global focus since 2006. In 2015, the HOCHDORF Group earned around one fifth of its revenue with infant formula.

page 32 ff.
Report Baby Care

- The Baby Care Division of HOCHDORF Swiss Nutrition Ltd exports more than 90% of its products. Its products include a broad range of milk products made in Switzerland for pregnant women, infants and young children. The products are exclusively located in the premium segment.
- The HOCHDORF Group holds a 60% stake in HOCHDORF Americas Ltd. The company sells HOCHDORF infant formula in Latin American countries.

Cereals & Ingredients

The fields of activity covered by this area came to the Group via acquisitions. The companies operate in niche markets with healthy products.

page 35 ff.

Report Cereals & Ingredients

› Healthy VIOGERM® wheat germ products form the centrepiece of the Cereals & Ingredients Division of HOCHDORF Swiss Nutrition Ltd. The company occupies a leading position in the market for stabilised wheat germ and wheat germ oil. The product range is rounded off by Femtorp® instant iessert products as well as various cereals for the baking industry. This company frequently works with its customers to develop new healthy consumer products.
› Marbacher Ölmühle GmbH, Marbach (D), has been producing various organic vegetable oils since 1899. In the process, the company sets great store by the origin, quality and traceability of its oil seeds as well as gentle processing and filling.
› HOCHDORF South Africa Ltd based in Cape Town was set up in 2015. The company develops, produces and sells high-quality chocolate to corporate clients and consumers exclusively on the African continent. Through this activity, HOCHDORF is aiming to achieve even greater expertise in the development of specific ingredients for the chocolate industry. The HOCHDORF Group owns a 90% stake in this company.

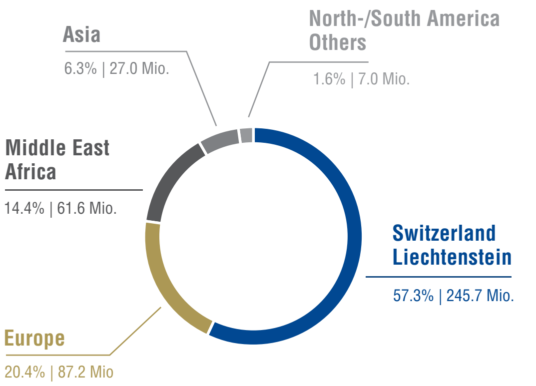
page 35

In 2015, two oils received international recognition.

Gross sales revenue by region

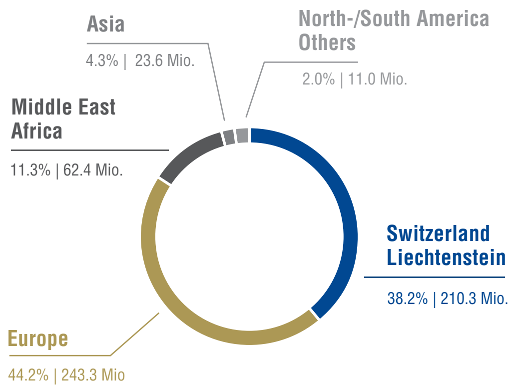
2014

relative | absolute



2015

relative | absolute



Strategy 2016 – 2020 sets new priorities

Our goal is to turn HOCHDORF into a global, profitable niche company with premium products, by 2020. As a company operating in certain niche markets, HOCHDORF wants to preserve the agility of a mid-sized company and show the entrepreneurial spirit required to conquer new markets.

Forward integration, i.e. taking a step closer to the consumer, forms an important part of the new strategy. The company is initially aiming to take this step in the Baby Care Division. Joining forces with customers in the MEA region and/or Asia represents the ideal scenario. The intention is also to establish the company’s own brands.

The development and marketing of new, high value-added products represents a second major step towards achieving the company's goal. The new products focus on customer benefit and offer high added value; for example, they include base powders for producing infant formula or instantised milk powder.

In every market, HOCHDORF positions itself as a specialist with its products. Proximity to its partners and its high degree of flexibility enables HOCHDORF to differentiate itself from other market participants through its integrated product and marketing concepts. In order to attain the goals it has set itself, every business unit will develop such premium products and use them to establish itself in its target markets.

More at:
www.hochdorf.com/
en/company/quality

The aspiration to operate in premium segments is matched by correspondingly high quality standards in HOCHDORF's production facilities. The aim here is to optimise production processes and quality assurance. The efficiency of existing processes is regularly reviewed by means of key indicators. A further objective involves optimising the supply chain throughout the entire Group.

The HOCHDORF Group is aware that many natural resources and a lot of energy are required for the production of its products. We aim to treat all resources sustainably and in ways that are environmentally friendly. Among other things, we make sure that plants are highly energy efficient when we commit to new investments.

page 28 ff.
Report Dairy Ingredients

Strategy and markets for Dairy Ingredients

The aim is for the Dairy Ingredients business to develop on a sustainably global level from a strong Swiss base. Cooperation between the four milk plants, Hochdorf, Sulgen, Prenzlau and Medeikiai, will be optimised to the greatest extent possible and the product portfolio sensibly combined.

We want to defend our market position in Switzerland, including in the area of roller-dried whole milk powder. As a Swiss expert for roller-dried whole milk powder, we are planning to make global capital from this knowledge. At the same time, we want to develop, produce and market new products with high added value across all our production plants. We position new HOCHDORF products as a premium alternative with corresponding service in the markets.

The aim with all our activities is to pay attention to the various underlying conditions and build them sensibly into the operational implementation process. Milk procurement represents an important element here. It is to be adapted to fit with the requirements of the production facilities.

page 32 ff.
Report Baby Care

Strategy and markets Baby Care

The Baby Care business unit is globally structured and we plan for it to achieve further growth with existing customers in Asia, the Near East and Africa. We are looking for new partners, above all in the emerging markets of Latin America and in larger Asian countries where HOCHDORF is not yet operating. In the medium term, the Baby Care business unit wants to reach closer to the consumer in the value chain with its own brands in selected markets.

On the production side, we want to optimise existing capacity for the production of infant formula. At the same time, we will adapt production capacity to meet the high demand. That is why planning has already started for a new spraying tower line. The new spraying tower line will be built in Switzerland due to the high demand for Swiss-made infant formula.

At our Prenzlau facility, we are planning to produce basic products for the production of infant formula that the market is asking for. Several global partners are interested in such high-quality products for making infant formula. Production of these base powders represents a first step in establishing the expertise to produce infant formula at the Prenzlau facility.

Strategy and Markets Cereals & Ingredients

page 35 ff.
Report Cereals & Ingredients

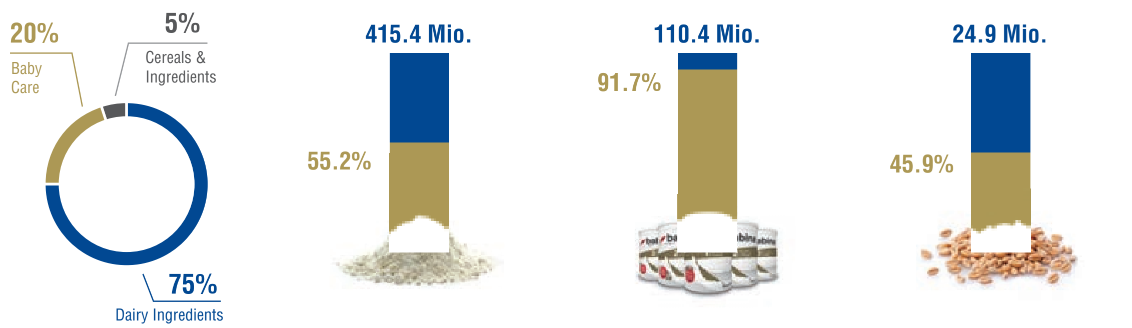
The Cereals & Ingredients business unit occupies a strong position in the domestic market of Switzerland with its gently pressed VIOGERM® wheat germ products. The challenge is to defend this position. We intend to expand our global activities using our production facility in Marbach (D) as our base.

Production at the oil mill in Marbach will be optimised and expanded. The company is banking primarily on organic vegetable oils and press cakes of organic seeds. We demand high quality when it comes to raw materials, and we therefore work closely with our raw materials suppliers. By doing so, we are able to guarantee maximum traceability.

On the product side, Cereals & Ingredients is preparing to enter the kids' food area. Calls for healthy, tasty food for children and the needs of our customers to extend their product range are gathering strength. With its VIOGERM® wheat germ products and various organic vegetable oils, HOCHDORF is in possession of a solid base to service these needs. The products will be sold under its own brand but also as business to business products in existing partner networks.

Gross sales revenue

Share of revenue	Dairy Ingredients	Baby Care	Cereals & Ingredients
Business divisions	Share of revenue abroad	Share of revenue abroad	Share of revenue abroad



«HOCHDORF becomes a global niche player in the premium segment»

Dr Thomas Eisenring, the 2015 financial year saw the removal of the minimum exchange rate of the Swiss franc against the euro by the Swiss National Bank and the international collapse of milk prices. How did the HOCHDORF Group manage in this situation?

› We weathered the removal of the minimum exchange rate against the euro quite well by immediately initiating suitable measures; however we lost a key account, but this did not affect us so badly in view of our limited capacity. What has remained, of course, are the currency losses on our inventories. It was mainly in Germany that we felt the effect of the international collapse in milk prices, but here we have the good fortune to have hardly any permanent contracts for the supply of milk; we buy our raw materials on the spot market. So the damage was fairly limited.

How satisfied are you with the financial result achieved in this situation and what are the most important factors that have led to this result?

› In view of the framework conditions in 2015 and our current business model, we can be satisfied. In my opinion, the main drivers are price stability in Baby Care accompanied by lower commodity prices and the adjustment of milk prices in Dairy Ingredients. There was certainly a negative effect from the milk situation in Germany.

What, in brief, were the specific challenges in the three business areas, Dairy Ingredients, Baby Care and Cereals & Ingredients?

› In Dairy Ingredients, the main challenges were to defend our position in Switzerland and to find a solution to the huge Schoggi law gap looming as a result of the SNB decision.

In Baby Care we had to make the most of the very limited capacity at our disposal. We virtually pulled out all the stops in order to get as much as we could out of our plants.

In Cereals & Ingredients, the focus was on integrating the newly acquired Marbacher oil mill. A further priority consisted in developing the new product portfolio for Kid's Food.

On the subject of increasing efficiency in production, from which projects do you expect improvements in results in the current financial year?

› Cost efficiency is always an issue for us. A project is currently underway at our plant in Prenzlau where we intend to save a seven-figure sum. We are expecting further significant improvements from the streamlining of the supply chain and our investment in new capacity at the Hochdorf location.

Today, Dairy Ingredients comprises four production plants operating in three different political and economic environments. What synergies can nevertheless be exploited?

› In principle every plant must be profitable in itself. Synergies mainly result from the general optimisation of capacity and by-products. In the high season for milk, for instance, certain products can be manufactured in inward processing in Germany if capacity is scarce in Switzerland. There are also synergies between the plants. In the case of protein production in Lithuania, for example, cream is produced as a by-product which can be used in Germany as a raw material for the production of butter.

Let’s change the subject to Cereals & Ingredients. Here too, a plant had to be integrated in 2015. What synergies can already be exploited between the location in Switzerland and the one in Germany?

› Synergies can be exploited by consolidating administrative activities; we have also moved unused equipment from Switzerland to Marbach. However, in principle we purchased the plant in Marbach because our future expansion into Kid’s Food and winning additional orders for wheat germ can hardly be achieved from Switzerland. Product costs in Marbach are lower than in Switzerland.

Capacity is to be expanded at the Hochdorf location. How far has this project progressed and what products are produced with the additional milk that can add value?

› The project will be completed by the beginning of 2017 and will bring economies of around CHF 500,000 Swiss francs, solely by saving energy. On the product side, we will benefit from a pure volume effect through our standard product range in the area of Dairy Ingredients.

At the location in Prenzlau, there was initially talk of converting the existing drying capacity and the half-yearly report mentioned the construction of a new spray tower. What were the reasons for not producing any infant formula in Prenzlau for the time being?

› This really was a case of good luck. When we calculated our future capacity requirements in 2013, this was based on the forecasts at the time from our most important customers in the area of Baby Care. Now you must know that our most successful customers are relatively young companies that have not been in this business for very long. Then last year we found that the forecasts of around 10,000 tonnes, which were made at the time, were too low; it must be noted that these were all customers who use their Swiss origin as a marketing instrument. So the conversion of the existing tower in Prenzlau that was originally envisaged was no longer on the cards as it was too small. An alternative major investment in a larger tower, at a plant where no infant formula has ever been produced, would simply be too big a risk. Besides, the fastest-growing group of customers were those who prefer products of Swiss origin.

At the same time, in our Strategy 2016-2020 we set out a product initiative to replace skimmed milk powder, where margins are weak, with base powder and instant milk. Both products can be manufactured on the present tower in Prenzlau with just a few modifications. The decision in favour of this change of strategy was therefore a very easy one to take, as this is far more in line with market requirements.

Does this change of plan mean that net profit as a percentage of production revenue will not rise as announced from financial year 2017?

› This change of plan will have no negative effect on profit growth; on the contrary, it will enable us to accelerate the process of making the plant in Prenzlau profitable.

The Baby Care segment can look back on a year of no growth. When can growth be expected again in this area?

› As mentioned a number of times, we have reached the limits of our capacity here. With the existing business model, we will only be able to grow again from 2017. If we manage to accomplish forward integration, we will be able to make considerable progress even in the current financial year. It should not be forgotten that without the effect of exchange rates, we would have posted growth in terms of turnover.

Forward integration is a very important strategic project . How far has this project progressed?

› This project is already very advanced. We expect that we will soon be able to announce more details.

Why is the HOCHDORF Group focusing on markets in Asia and the MEA region in the case of forward integration? What are the most important features of these markets that one has to bear in mind?

› Markets in Asia are naturally very attractive due to their sheer size, but the competition is correspondingly tough. In addition to this there are market risks; in China; for instance, besides the high legal uncertainty, you also have to take account of the huge cost of cultivating the market.

› We find the Asian markets to be very attractive and will also remain active there, but the MEA markets are the ones to concentrate on for forward integration. Although these markets are smaller, they are more accessible to us and tend to involve fewer risks.

How does the HOCHDORF Group intend to integrate a possible target company and address the specific features of the market?

› There is a perfectly simple principle here: «Never stop a running engine». The candidates for integration are very successful companies who know exactly what they are doing on the market side. These companies must continue to function in exactly the same way on the market side. Our task will be to create more structure in the administrative area and to bring this business model to new markets. We have created the Global Marketing & Sales function specifically for this purpose.

In the half-yearly report, there was also a brief mention of the Kid's Food project. What exactly lies behind this project name, and what opportunities is the HOCHDORF Group expecting it to bring?

› The «Kid's Food» project is intended to extend our product range from pure infant formula into the area of toddlers and children. Everyone now understands that healthy infant formula is important for a child's development, and suppliers have positioned themselves accordingly. Today there is a broad range of healthy infant formulas on the market. However, if we look at the food in terms of the baby's age, it is our opinion that the market for healthy food is underdeveloped in this area. Such products not only need to be healthy, they have to taste good as well. We can see a strong demand for such products and this is where we see the great potential of catering for babies as they develop into toddlers and young children.

The HOCHDORF Group is currently engaged in several challenging projects. What do you think are the greatest risks that HOCHDORF has to face?

› I consider the risks to be well manageable in the case of the acquisition and integration projects. In the case of the investment projects, especially investments in the expansion of capacities for the production of infant formula, I see the main challenge in the expansion of our organisation. We must realise that we have to create around 40-50 new jobs and produce closely in line with pharmaceutical standards. This will challenge us to our limits.

Alongside these projects, day-to-day business continues. What is the order situation like in the individual business areas?

› The situation is stable in the area of Dairy Ingredients; we have manged to renew all the important contracts in 2016; we are not expecting any surprises. What greatly pleases us is that we have been able to conclude a number of interesting deals in addition.

In Baby Care the situation could soon be termed dramatic. Some customers by the middle of 2016 will already have the same volume of orders as for the whole of 2015. We need to watch the situation in China very closely. It is quite possible that limits will be placed on the maximum number of brands per manufacturer. But any possible decline in China would be more than made up for by other orders.

We are not expecting any surprises in Cereals & Ingredients. At the moment we still have a volume problem in Marbach, but here we have initiated various measures that promise an improvement.

A new strategy was also defined in 2015. Which, from your point of view, are the three central issues?

› Our vision is to become a global niche player in the various premium segments, with profitability significantly above average. In addition to cost efficiency, which we still need to increase, we are pursuing two main approaches, the product offensive and the at least partial development towards becoming a business-to-consumer company. The latter not only includes forward integration, but also the development and marketing of products for which we only deliver the ingredients today. This aim is to implement this policy primarily in rapidly growing, unsaturated markets, in other words in the APAC and MEA regions.

«To develop healthily, a growing child needs about 50 per cent more iron than a grown man.»

BABY CARE

«Because health matters everywhere.»

For babies and children, ensuring an optimum iron supply is a global theme, as this trace element is vital for the healthy development of our little ones. Children who drink iron-enriched milk for infants and toddlers from their sixth month onwards suffer less from effects of iron deficiency than those who consume a lot of cow's milk.

Tired and unable to concentrate? We all have such days. They come and go. But if several days extend to several weeks or even months, this might be a warning signal: Chronic fatigue and concentration disorders are often linked to an iron deficiency. Whether young or old – we all need energy for our mental and physical mobility.

For us, oxygen is an important energy source. To reach our organs via the bloodstream, oxygen needs a carrier: red blood cells, also called haemoglobin. If we have too little haemoglobin in our blood, our body will not get enough oxygen. As a result, our performance will drop. To be able to build a sufficient number of red blood cells, we need iron.

Children depend on iron

Most children get enough iron in the womb and are born wit full iron stores. However, these stores are depleted after four to six months if babies do not receive any reinforcements through the food they consume.

From the sixth month, the child's growth results in a major increase in the amount of blood. To form haemoglobin, the child now needs a lot of iron, namely about 50 per cent more than a grown man. Breastfeeding alone is no longer sufficient to ensure an adequate supply, as the iron content in the mother's milk drops by half in the first six months after birth. For this reason, the child's organism often reaches its first critical phase in terms of the iron level at the age of six months to three years. At the latest when this age is reached, iron-rich supplementary food should be given.

«The iron content of a meal can be increased in many ways. For example, mashed vegetables or cereal can be mixed with infant or junior milk instead of cow's milk.»

«Conventional cow's milk does not contain enough iron.»

Our body is unable to form iron by itself. It needs to absorb it from the food we eat in order to be able to produce enough haemoglobin. If we have too little iron, our organism will lack an important energy carrier. Especially toddlers need a lot of iron for healthy growth.

Growing children need a lot of iron
If children do not receive enough iron during their development and growth phase, this can cause health problems, e.g. memory and attention deficits and depression. The body, too, is harmed, resulting in development and growth disorders. A systematic iron therapy can partially remedy such physical and mental deficits. Therefore, iron deficiency should be identified and treated at an early stage, or even better, it should be prevented in the first place.

Various studies indicate that 5 to 20 per cent of all children under the age of five in industrialised countries suffer from an iron deficiency. This rate is over 50 per cent in newly industrialised countries and up to 70 per cent in some developing countries.

In industrial countries, iron deficiency in children is mainly caused by an unbalanced diet. Instead of paying attention to an iron-rich diet, we offer our children high-fat and high-sugar food, e.g. in the form of fast food, snacks and soft drinks. However, a balanced diet represents the primary basis for a sufficient iron supply.

Meat, poultry, fish and eggs are rich in iron. The options for those who prefer vegetarian dishes include legumes, whole-grain products, nuts, berries and some kinds of vegetables. However, with a bioavailability of 25 per cent, the body can absorb animal iron much better than vegetable iron, of which the body can only absorb 8 per cent.

Possible long-term damage in children with iron deficiency

- Long-term damage in neural connections and impairment of cerebral functions
- Growth and development disorders
- Reduced mental performance, e.g. concentration deficits and inferior verbal skills
- Social and emotional problems, e.g. timidity or depressive moods

Infant and junior milk can help against iron deficiency

Efforts to compensate the lack of iron in the mother's milk by feeding cow's milk and dairy products will hardly be successful. The iron content of normal cow's milk is very low.

Assuming that toddlers need 7 mg of iron a day, they would have to drink 14 l of cow's milk in order to reach the recommended daily amount. By drinking infant or junior milk enriched with iron – e.g. with 7 to 12 mg a litre – children can easily satisfy their daily iron requirements.

«To make sure that our little ones are healthy and sound.»

Iron-rich diet – discrepancy between theory and practice
Children that are fed according to the country-specific guidelines issued by the health authorities do not need iron-rich junior and children's milk. Unfortunately, however, theory and practice are often far apart. Nowadays, we grownups often do not have the time or possibility to prepare fresh meals for our children several times a day.

Infant and junior milk boosts the nutritional value of a meal
Instead of fruits and home-made whole-grain bread spread with vegetables, cheese or meat, we serve our kids high-sugar snacks from the fridge. For lunch or dinner, we give them frozen pizza or instant noodles from the microwave. Though ready-made dishes are easy to prepare, they are not always very rich in vitamins.

On such days, it might be good to additionally give our children some iron-rich infant and junior's milk. Studies have shown that children have better iron values if they drink such milk instead of cow's milk. This is because conventional milk and dairy products have some pitfalls when it comes to iron absorption.

Unfortunately, cow's milk and some vegetables, such as soy beans, contain inhibitors that impair the absorption of iron. The range of inhibitors includes magnesium, calcium, polyphenols and phosphates. When children eat bacon and eggs, this will do little to supplement their iron stores if they drink cow's milk or soya milk at the same time. However, this issue can be circumvented by taking vitamin C during a meal. Vitamin C helps to extract iron from the food. So it is a good idea to start off with a glass of fresh orange juice or to finish with a fruit.

The iron content of a meal can be improved in many ways. For example, the cereal or mashed vegetables can be mixed with infant or junior milk, and ready-made baby food can be enriched with fresh ingredients. We need to do what we can to make sure that our little ones are healthy and sound.

More articles on the subject of baby care are available in our online magazine HOCHDORF Inside: www.hochdorf.com/de/unternehmen/inside

«Studies have shown that children who drink infant and junior milk have better iron values than those who consume cow's milk.»

Financial Report

Income statement: operational detail

In Switzerland the year under review was marked by the currency effect resulting from the removal of the minimum exchange rate of the Swiss franc against the euro and the very difficult situation on the milk market in Germany. This meant that the HOCHDORF Group was not able to meet its expected figures with regard to turnover due to quantity and currency effects. Fortunately, however, the Group even outperformed its more important operational targets.

Quality Baby Care products are not very price-sensitive.

Baby Care made a substantial contribution towards the good results. A high of utilisation of capacities and a good product mix led to pleasing revenue figures. The situation is more difficult and more competitive in the business area Dairy Ingredients, and much effort is needed in order to maintain quantities and margins. Despite the very difficult situation as regards the «Schoggi Law» there was no need for write-downs or additional expenditure. In Cereals & Ingredients we continued to clear out the product range and the portfolio. So after several years of losses, the Swiss business made a pleasingly positive contribution in 2015. Unfortunately, Cereals & Ingredients posted a loss in its German business, but this is entirely due to the failure to achieve quantity and turnover targets.

Due to the weaker margins achieved in the business in Germany, the Group's gross profit, in terms of percentages, was down to 23.9% (PY: 24.7%). Of greater significance, however, is the nominal increase in gross profit to CHF 130.1 m (PY: CHF 105.2 m). Gross turnover rose to CHF 551.2 m (PY: CHF 428.7 m). This was mainly driven by the new acquisitions in Germany. In the year under review we achieved an EBITDA of CHF 30.5 m (PY: 27.2 m), setting a new record. The EBIT result was CHF 20.1 m (PY: 20.0 m) with much higher amortisations of CHF 10.3 m in 2015 (PY: CHF 7.2 m).

In the year under review, the main plants once again ran at close to full capacity. In 2016 volumes are to be raised again with the help of additional measures. With regard to operating expenses, the inclusion of the German plants meant that the figures for both personnel expenses and other operating expenses were higher than for the previous year. Personnel expenses were higher, largely due to the higher staffing levels required. On the other hand, operating expenses have come in below internal targets. The main reason for this lay in the much lower energy prices for gas and electricity.

Financial results

In the year under review, the outstanding convertible bond with a nominal value of CHF 50 m was prematurely called on 28 December 2015. With the exception of CHF 280,000, which was paid back in full on 28 December 2015, the bond was converted in full. Ordinary investments were financed from the current cash flow. The main items in terms of interest expenses were costs for the syndicated loan and the convertible bond.

The strong Swiss franc also affected the business of the HOCHDORF Group. The removal of the minimum exchange rate of the Swiss franc against the euro by the Swiss National Bank led to an appreciable loss in the financial result. The immediate measures taken by the Group meant that the losses remained manageable and the operating result even rose slightly. However, our competitiveness remains diminished at this exchange rate level.

Taxes
Tax costs on the operating result were in line with expectations. In the year under review, deferred taxes on newly incurred tax losses in the German companies were capitalised. At HOCHDORF Deutschland GmbH the capitalised taxes were written off as the company is in liquidation and the losses can no longer be offset.

Cash flow and financing
Cash flow from operating activities was down year-on-year from CHF 20.5 m to CHF 19.0 m. Earned capital also fell from CHF 25.3 m to CHF 24.9 m, the main reason being the exchange rate losses suffered due to the appreciation of the Swiss franc. Despite the expansion of business activities, receivables and inventories remained within a reasonable range.

In the area of investments, more than CHF 22.2 m was spent on plant/buildings/software. Further substantial investments in capacities are planned for 2016.

As expected, free cash flow was negative in 2015. For 2016 and 2017 we are also forecasting negative free cash flows as urgent investments have to be made in increasing capacities.

At 31 December 2015 net borrowing stood at the low figure of CHF 21.3 m (PY: CHF 46.8 m). The reduction is due to the conversion of the convertible bond. The long-term, expensive borrowings of the German companies have been refinanced via the Group, which has significantly reduced the interest burden in general. The HOCHDORF Group's financing therefore forms a solid basis for the company's continued growth.

The equity ratio stands at a high 56.6% (PY: 43.2%).

Marcel Gavillet
CFO

Key figures of the HOCHDORF Group

CHF 1,000	2015	2014	2013	2012	2011
Processed milk and whey in tonnes	761,240	506,963	454,647	442,350	474,421
Quantities produced incl. cream in tonnes	241,754	99,720	89,631	87,518	92,394
Turnover (gross sales revenue)	551,208	428,689	376,145	346,614	346,574
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**30,455**	**27,197**	**18,099**	**14,318**	**14,538**
as % of production revenue	5.6%	6.4%	4.9%	4.2%	4.1%
Earnings before interest and taxes (EBIT)	**20,146**	**20,016**	**10,298**	**2,759**	**1,898**
as % of production revenue	3.7%	4.7%	2.8%	0.8%	0.5%
Earnings before taxes	**15,137**	**17,849**	**6,328**	**–35,402**	**13,499**
as % of production revenue	2.8%	4.2%	1.7%	–10.5%	3.8%
Net profit	**13,024**	**16,139**	**6,063**	**–35,326**	**12,381**
as % of production revenue	2.4%	3.8%	1.6%	–10.4%	3.5%
Personnel expenses	**46,227**	**34,802**	**31,720**	**32,456**	**31,207**
as % of production revenue	8.5%	8.2%	8.5%	9.6%	8.9%
Depreciation on property, plant and equipment	**9,972**	**6,782**	**7,086**	**10,842**	**11,871**
as % of average net inventory	6.2%	6.1%	6.5%	8.2%	7.6%
Investments in fixed assets	**22,211**	**16,952**	**3,957**	**8,679**	**6,612**
as % of production revenue	4.1%	4.0%	1.1%	2.6%	1.9%
Earned capital	**24,870**	**25,310**	**18,126**	**13,507**	**12,919**
as % of net sales revenue	4.6%	6.0%	4.9%	3.9%	3.8%
Cash flow from operating activities (cash flow)	**19,011**	**20,546**	**18,196**	**15,372**	**–2,282**
as % of net sales revenue	3.5%	4.9%	4.9%	4.5%	–0.7%
Free cash flow (loss)	–3,736	–11,903	13,846	7,134	8,295
Equity ratio	56.6%	43.2%	42.6%	41.6%	48.6%
Interest coverage (EBIT/interest expense net)	11.0	8.6	3.1	0.7	0.5
Number of shares, outstanding, in units	1,434,760	1,070,922	900,000	900,000	900,000
Earnings per share in CHF	11.73	17.45	6.95	–39.69	13.91
Cash flow (earned capital) per share in CHF	17.33	23.63	20.14	15.01	14.35
Dividend	37%	37%	32%	30%	30%
Payout ratio	39.26%	24.55%	47.50%	n.a.	21.81%
Share price at 31.12. in CHF	168.70	138.00	104.00	88.25	75.70
Dividend return	2.19%	2.68%	3.08%	3.40%	3.96%
Price/earnings (P/E) ratio	14.4	7.9	15.0	n.a.	5.4
Market capitalisation	242,044	147,787	93,600	79,425	68,130
Staffing levels at 31.12.	625	573	362	381	361

Since 2015, HOCHDORF has focused on the three areas of Dairy Ingredients, Baby Care and Cereals & Ingredients. Apart from the coordination of the production, the company has stepped up its sales and marketing activities and branding efforts.

Dairy Ingredients Division

The Dairy Ingredients Division achieved gross sales revenue of CHF 415.4 m in 2015 (PY: CHF 298.6; +39.1%). The reason for this massive increase in revenue lies in the acquisition of Uckermärker Milch GmbH. Gross sales revenue fell by comparison with the previous year in Switzerland and Lithuania due to lower prices for milk, which led to lower product prices.

Switzerland: HOCHDORF Swiss Nutrition Ltd
The volume of liquid purchased and processed fell (as expected) by -5.4% compared to the previous year to 388.9 m kg (PY: 410.9 m kg). Altogether, however, we processed 314.1 m kg of our own milk in the Hochdorf and Sulgen facilities, which was slightly more than in the previous year (312.9 m kg). Due to lower milk volumes in the spring, we dried significantly less milk in Switzerland on commissioned orders. We increased the volume of whey processed by 10.3% by comparison with the previous year, reaching 55.0 m kg.

It is important for the Dairy Ingredients Division that plants operate at as close to full capacity as possible over the course of the year. We were able to achieve this in 2015, on the one hand by increasing the volume of whey processed. And on the other, the Swiss Customs and Excise Authority approved the importation of 780 tonnes of skimmed milk concentrate for export projects (inward processing arrangements) by the end of January at the latest. This ruling helped us to keep plants running near to full capacity during the period of low milk.

In fact, we did without importing the full volume approved, as Swiss milk volumes picked up again in December. Overall, the Dairy Ingredients Division posted revenue of CHF 227.6 m (-11.8% vs. PY). The reasons for the fall in revenue lie in lower raw material prices, which were passed on to customers, lower commissioned orders, and exchange rate fluctuations for export products. The decline in volumes in the area of roller-dried whole milk powder turned out to be lower than we had expected at the beginning of the year. Against that, we were able to sell record volumes of milk and whey protein products.

The solution negotiated with our milk suppliers in spring to compensate for the gap created by the «Schoggi Act» worked well. The milk producers' reserve was regularly modified to meet current needs. The increase in «Schoggi Act» support decreed by parliament relieved the fund significantly. On 19 December 2015, the WTO Conference of Ministers in Nairobi decided that export subsidies such as the Swiss «Schoggi Act» would be banned with a transitional period of five years.

The federal government is keen to work with the industry to develop a new model that is compatible with the WTO. This is an important project for us, and we are playing an active role in the various committees.

In product development, we collaborated mainly on the IonEx project as well as working on customer-specific items. The system for producing lactose and whey protein products was completed in the first half of the year. The first lactose trial production runs were carried out in the second half of the year. The products are of high quality and can be used in infant formula. Further experience will be gained on the line at the beginning of this year. The intention is to hand over the system for regular production from mid-2016.

We also pushed ahead with refinements to the modified milk proteins. We are expecting to launch in the first half of 2016.

Outlook
Milk prices will probably not significantly recover throughout the whole year. Due to the relatively high volumes of milk – in Switzerland and abroad – we are assuming that the price of milk in 2016 will remain at a very low level. We expect to have a relatively high volume of milk to process in the first half of the year in spite of the low prices, due to good feed and volume restrictions on several types of cheese. We will also export cream this year on behalf of Lactofama, thereby taking some of the pressure off the Swiss market.

One important project for us in the second half of the year will be the expansion of capacity at the Hochdorf facility. With the aid of a reverse osmosis system and a high concentrator, by 2017 we will be able to process significantly more milk in Hochdorf.

Lithuania: HOCHDORF Baltic Milk UAB
HOCHDORF Baltic Milk UAB posted gross sales revenue in 2015 of CHF 26.0 m (PY: CHF 43.6 m; (-40.3%). The enormously high growth in revenue in 2014 was largely due to a milk exchange deal with a Lithuanian dairy. This milk exchange deal was no longer in operation in 2015. Further reasons for the lower revenue were the appreciation of the Swiss Franc and significantly lower prices for milk by comparison with the previous year. The latter had to be passed on to our customers in the form of lower product prices in order to remain competitive.

In total, we sold 17,736 tonnes of products in Lithuania. This figure is almost eight percent higher than the previous year (not counting the quantities involved in the milk exchange deal). The optimisation measures implemented in 2014 constituted one of the reasons for this increase.

We also invested in a new ultrafiltration system. This went into trial operation in November 2015.

Outlook
The continuing import ban on EU milk products to Russia and the lifting of the quota system will also lead to high milk volumes in 2016. However, the prices for milk products are still very low, and we are not currently assuming that they will soon recover.

In terms of development, we will concentrate on producing micellar casein in the new ultrafiltration system. The first trial production runs went well, and marketing of this special product has begun. Micellar casein is a high value-added product that fits with the strategy, and from which we are expecting a positive contribution in the current financial year.

As far as our main product, milk protein powder, is concerned, we were no longer able to conclude the new contracts at the old price level. These prices, too, have come under severe pressure since November 2015. We therefore expect the 2016 financial year to be a somewhat difficult one with the current price environment.

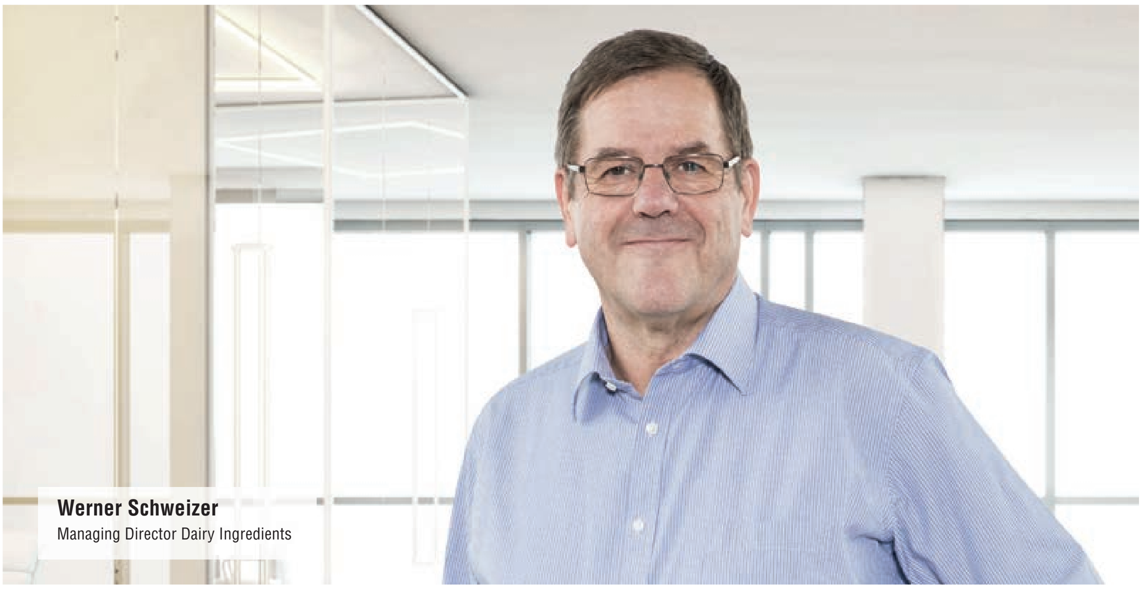
Germany: Uckermärker Milch GmbH
Uckermärker Milch GmbH posted gross sales revenue of CHF 163.1 m in 2015. This revenue is somewhat below expectations due to the very low milk prices and the strength of the Swiss Franc. We also reduced the production of skimmed milk powder due to the tight market situation in Germany. And we did so although we purchase most of our milk on the spot market. Milk on the spot market generally traded at a cheaper price than contract milk from milk producers.

Altogether we processed 296.7 m kg of liquid (milk, cream, buttermilk and milk permeate) in the Prenzlau facility and sold 135,407 tonnes of product. The buttermilk project with Arla mentioned in the six-month report was implemented, and since December we have now been producing buttermilk as well as butter, curd and milk powder. The buttermilk business is growing as planned and volumes have been increased. If this trend continues, we will be able to increase the filling capacity for buttermilk production in the current financial year, as planned.

In 2015, we implemented various smaller projects in our existing production system in order to increase efficiency. For example, work was carried out on the butter packaging system and the palletiser.

Outlook
In the current low price environment, it is particularly important to keep our own costs under regular review. Appropriate processes were defined and put in place in January 2016. This is all the more important as we do not expect any sudden recovery in the domestic or international milk market. Accordingly, we will continue to procure most of our milk through the spot market.

It is important for the success of the powder milk plant that we are able to produce higher-margin powder as soon as possible. For that reason, the project to produce instant milk and base powder enjoys high priority. We plan to be in a position to produce such powder, at least in trial quantities, by the first half of the year.



Strategy in brief

«The aim is for the Dairy Ingredients business to develop on a sustainably global level from a strong Swiss base. Cooperation between the four milk plants will be optimised and the product portfolio combined. In Switzerland, we want to defend our market position and reap the global rewards of our knowledge in the area of roller-dried whole milk powder. We want to develop, produce and market new products with higher added value across all plants. We will position new products as premium alternatives with corresponding services in the markets. With all our activities, the rule is to pay attention to the various underlying conditions and build them into our operational implementation.»

page 12
Strategy Dairy Ingredients

Product range

Cream, milk concentrate, skimmed milk powder, whole milk powder, cream powder, fat powder, milk protein powder, whey powder, whey protein powder, permeate powder, butter, curd.

	2015	2014	2013	2012
Gross sales revenue (in KCHF)	415,379	298,563	264,701	249,057
Share of revenue abroad (in %)	55.2	26.1	24.1	26.4
Volumes sold (in tonnes)	216,511	80,737	73,201	74,066

Baby Care Division

Switzerland: HOCHDORF Swiss Nutrition Ltd
Baby Care Division achieved gross sales revenue in the 2015 financial year of CHF 110.4 m. This is on par with last year (CHF 110.0 m). In view of the strength of the Swiss Franc and the fact that over 90% of the revenue is generated abroad, we are very satisfied with this result. Quality and product safety are the top priorities in the production of infant formula. This had to be borne in mind in the projects to maximise capacity. We succeeded in significantly increasing the capacity of the production systems in the second half of the year compared with the first. We were able to increase the volume sold by 7% to 16,763 tonnes (PY: 15,651 tonnes). The project group for maximising our own production capacity has not been disbanded.

The restructuring of our customer base enabled our strongest partners to achieve significant growth in spite of capacity bottlenecks. For example, our customers in Africa were able to expand their sales into numerous further countries. HOCHDORF products are today available in Burkina Faso, Burundi, Kenya, Nigeria and Tanzania, to name just a few countries. In Asia, we are also supplying a partner in Cambodia.

Our rapidly growing partners in the markets of Asia, the Middle East and Africa emphasise the Swiss origin of the infant formula in their marketing activities. Their medium-term planning provides for further growth. We are dependent on new production and filling capacity in Switzerland if we are to service these customers in good time with Swiss-made infant formula. For this reason, we had to postpone our plans for new construction work at the Prenzlau facility. With a small investment in our existing drying system, we will be in a position to produce base powder for various existing partners in Prenzlau by around the middle of 2016.

Base powder is a product which can be used among other things as the base for the production of infant formula.

Our development department was kept busy in 2015 with various regulatory modifications. Among other aspects, all EU formulae have to be adapted to meet the new EU regulation. A further development project is attempting to use milk fat to achieve the right fatty acid spectrum in infant formula. This project is following the emerging trend towards using fewer exotic products such as palm oil, and is also in line with current scientific developments. Our developers are also involved in capacity-enhancing projects in Sulgen and Prenzlau. The IonEx project for producing our own lactose and whey proteins for our infant formula was also given close support.

Launching in Latin American markets is proving harder than we had assumed. The barriers to market entry are relatively high, and the general economic situation is tough in some countries. For this reason, we have now set up HOCHDORF Americas Ltd in which we have a 60% stake. At the same time, opportunities for a production joint venture have opened up. This opportunity is now being pursued parallel to our own sales activities.

Outlook

We are now in the final straight for the use of our own lactose in our infant formula. An initial test with the use of liquid lactose was conducted at the end of 2015. The task now is to analyse these products and, if necessary, to make modifications to the production process or the formula. Our developers are also involved in the conversion projects in Prenzlau and the Sulgen project.

We will also turn our attention to the new Swissness legislation. Currently we are assuming that we will be allowed to continue advertising the Swissness of our infant formula made in Switzerland. Wherever possible, we are already using Swiss raw materials for these products.

With our forward integration, we intend to move closer to the consumer and establish a presence in the market with our own brands. In the process, we will focus on the MEA region and/or Asia. These markets are attractive on account of their size, market structure and positive growth prospects as well as good existing partnerships. Ideally this could be achieved by integrating one or more existing customers.

Although we do not yet have any further production capacity, we are planning to increase revenue by around five percent. However, to achieve this, we will be dependent on a smooth supply chain and on further increasing the capacity of existing plants. At the same time, we are taking soundings in the market to identify possible new partners to enable us to fully utilise the planned new production and filling capacity as quickly as possible.


Fons Togtema
Managing Director Baby Care

Strategy in brief

«We offer our customers a Swiss-made product range of high-quality food for babies and children. We also support our partners, if requested, with services such as sales and marketing training. The Baby Care Division is international in structure and it is planning further growth in Asia, the Near East, Africa and Latin America. In the medium term, we want to move closer to the consumer in the value chain with our own brands in selected markets. We are planning to optimise and expand our production capacity. We will make basic products for the production of infant formula at the Prenzlau facility. »

page 12
Strategy Baby Care

Product range

Milk products for pregnant women, infants and young children made in Switzerland.

	2015	2014	2013	2012
Gross sales revenue (in KCHF)	110,988	109,988	94,507	70,646
Share of revenue abroad (in %)	91.7	91.3	95.9	94.4
Volumes sold (in tonnes)	16,763	15,651	14,007	11,087

Cereals & Ingredients Division

Switzerland: HOCHDORF Swiss Nutrition Ltd
The Cereals & Ingredients Division posted gross sales revenue of CHF 18.0 m which matched the figure from the previous year (PY: 17.9 m). The revenue of HOCHDORF Deutschland GmbH is included in both years. This company is in the process of being wound up, and its business activities were shut down as from the middle of 2015. The products are now being sold by the sales force of Marbacher Ölmühle GmbH.

The product volume sold fell slightly to 3,681 tonnes (PY: 3,733 tonnes; (-1.4%). The streamlining of the product range carried out in the 2014 financial year is therefore having an effect. The established sales and distribution structures also proved a success. We were able to conduct successful product developments with many new customers in 2015, and relaunch numerous products with our ingredients. For example, our new VIOGERM® High Protein Crisps are now to be found in globally available bars made by a leading cereal producer. And burgers with VIOGERM® wheat germ were on offer in Switzerland's largest fast food chain. The VIOGERM® wheat germ oil won an award at the Superior Taste Awards, and has been used in several clean label margarines in Germany thanks to its outstanding properties. Manufacturers of sports nutritional products are opting for VIOGERM® in order to boost the protein content of their products.

Our development department also looked at VIOGERM® applications for use in chocolate spreads. Here VIOGERM® replaces the expensive, high-fat hazelnuts or almonds. The taste and smoothness of the chocolate spread are in no way impaired, but in return the fat content is considerably reduced.

As well as customer projects, product development focussed on refinements in the area of desserts and pastries. Another important subject was the development of a kid's food range. Besides pure product development, the brand identity was developed and distribution partners evaluated.

In our marketing support, we focussed on three areas: articles in the trade press, newsletters, and the FiE Fair (Food Ingredients Europe). Our regular newsletters keep our customers up to date on new products and product applications. Our numerous trade articles were also successful and were printed in German- and English-speaking territories. In this fashion we are able to pass on our technical knowledge and draw attention to ourselves. At the beginning of December, we took part in the FiE Fair. We shared a stand with Marbacher Ölmühle GmbH, the Dairy Ingredients Division of HOCHDORF Swiss Nutrition AG, as well as Uckermärker Milch GmbH.

Outlook
In the current financial year, we are concentrating on developing the VIOGERM® business further and on the launch of the first kid's food products. The first products are to be launched in various markets in spring 2016. After years when revenue fell and then stabilised in 2015, we are planning to increase it in 2016 to around CHF 20 m. We want to achieve this goal through our own sales efforts and by strengthening our good working relationships with our distribution partners. On the marketing side in 2016, we will continue to rely on newsletters, articles for the trade, and exhibiting at fairs. In 2016, we intend to exhibit at Biofach, the world's leading fair for organic foods, and at SIAL in Paris, the world's largest food innovation fair.

HOCHDORF Kid's Food products will also be introduced to the Swiss market.

The award can be used in marketing activities for the respective products for a period of three years.

Germany: Marbacher Ölmühle GmbH

In 2015, Marbacher Ölmühle posted gross sales revenue of CHF 6.8 m. We cannot be entirely happy with this result. We are happy with the status of its integration into the HOCHDORF Group. Numerous synergy effects have already been exploited on the sales side.

As far as sales are concerned, Marbacher Ölmühle is pursuing forward and also backward integration. Wherever possible and where it makes sense, a conscious decision is taken not to use distributors. In terms of marketing activities, the logo, sales material and the online presentation were all redesigned.

We enjoyed success when our sesame oil and VIOGERM® wheat germ oil won prizes at the international Superior Taste Awards. At the end of 2015, we also achieved certification to ISO 22000:2005 for the production of cold pressed and refined vegetable oils and press cakes.

Outlook

We will adjust our organisation in purchasing and sales in 2016. As part of our marketing activities, we will exhibit at Biofach in Nürnberg as well as SIAL in Paris together with our Swiss colleagues. We will also draw attention to our healthy organic oils by means of newsletters and articles in the trade press. We want to diversify the knowledge existing in the company by means of employee seminars, and thereby to make our services for our customers more professional.

On the production side, we will start with the expansion of our production facilities in the first quarter. This expansion will permit significantly higher production volumes and may be seen as a milestone. The new plants are to be commissioned in the second half of 2016.

South Africa: HOCHDORF South Africa Ltd

The company, which was established in May 2015, spent its first year organising the necessary production equipment, the raw materials, staff and market profile. The cocoa beans, for example, will be procured directly from two farms in East Africa. The chocolate will be marketed exclusively in Africa under the brand name Afrikoa. Afrikoa is the first African «bean-to-bar» chocolate for which the cocoa beans are also procured directly in Africa. The first market surveys showed great potential and great interest both from business customers and consumers.

As planned, the micro production plant was installed and tested in the last few weeks of 2015. No products were sold, however, in the 2015 financial year.

Outlook

We are expecting production and sales of the first products in February 2016. The quality of the chocolate manufactured is excellent, and consumers will be able to buy it in our own factory outlet. If the assumptions made in the business plan are confirmed, we will invest in a larger production plant in the current financial year.

Strategy in brief

«The Cereals & Ingredients Division wants to defend its position in the area of gently pressed VIOGERM® wheat germ products in Switzerland. Marbacher Ölmühle GmbH is banking primarily on organic vegetable oils and press cakes from organic seeds. We demand high quality when it comes to raw materials, and we therefore work closely with raw materials suppliers in order to guarantee maximum traceability. HOCHDORF South Africa Ltd develops, produces and sells high-quality chocolate to business customers and consumers in and for Africa. On the product side, the Cereals & Ingredients Division is organising the entry into the kid's food area.»

page 13

Strategy Dairy Ingredients

Product range

Food Ingredients (VIOGERM® wheat germ as well as crispy cereals – crisps), wellness products (gently press wheat germ oil, food supplements – capsules and tablets), tonics, instant dessert products (mousse and glace powder) and cold pressed vegetable oils from predominantly organic cultivation.

	2015	2014	2013	2012
Gross sales revenue (in KCHF)	24,859	17,913	19,974	19,147
Share of revenue abroad (in %)	45.9	22.9	24.7	21.5
Volumes sold (in tonnes)	8,547	3,733	4,452	4,826

Corporate Governance

Corporate Governance

The HOCHDORF Group maintains an open, transparent and consistent information policy. We advocate responsible Corporate Governance with the aim of maintaining a balance between leadership and monitoring while protecting shareholder interests. The «Swiss Code of Best Practice for Corporate Governance» is our benchmark. The following statements correspond to the latest guidelines of the SIX Swiss Exchange's Information to the Corporate Governance (RLCG).

1. Group structure and shareholders

1.1. Group structure as at 31 December 2015
The Group structure of the HOCHDORF Group (hereinafter referred to as «HOCHDORF») is detailed on the following page. All shareholdings are listed on page 67 of the Annual Report, including their registered office, share capital and shareholding ratio. Apart from HOCHDORF Holding Ltd, which is listed, the consolidated group consists exclusively of non-listed subsidiaries.

1.2. Significant shareholders
Significant shareholders with more than 3% of the voting rights are listed on page 65 of the Annual Report. Various notifications were received in the reporting period in accordance with Article 20 of the Swiss Stock Exchange Act (SESTA). Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group in the meaning of Article 20 of the Swiss Stock Exchange Act (SESTA) and hold 5.21% of the capital and 5% of the voting rights (previous year: 6.68% of the capital and 5% of the voting rights).

1.3. Cross-investments
There is no cross-investments with other companies involving capital or voting rights.

2. Capital structure

2.1. Share capital
As at 31 December 2015, the share capital consisted of 1,434,760 registered shares (securities number 2 466 652 / ISIN CH0024666528) of a nominal value of CHF 10. The share capital is fully paid up. Each share is equivalent to one vote. There are no preferred shares. The company has issued neither profit participation certificates nor dividend rights certificates.

2.2. Conditional and approved capital
As at 31 December 2015, HOCHDORF Holding Ltd had authorised share capital amounting to a nominal total of no more than CHF 3,184,710 or no more than 318,471 registered shares of a nominal value of CHF 10. The deadline for exercise is 15 May 2016.

2.3. Capital changes
An overview of the capital changes can be found on page 67 of the Annual Report.

2.4. Restrictions on transferability
As a matter of principle, there are no restrictions on the transfer of shares of HOCHDORF Holding Ltd. In regard to the relationship with the company, shareholders are those who are recorded in the share register. A share register is kept for registered shares, and their owners are recorded therein. The company must be notified of any changes. Recording in the shareholder register requires proof of the share acquisition. Buyers of registered shares are entered in the share register as shareholders with voting rights, on request, provided that they expressly declare that they have acquired the registered shares in their own name for their own account. If the buyer is not prepared to make such a declaration, the Board of Directors may refuse the entry with voting rights. The recording limit is 5% of the voting rights.

2.5. Convertible bond
The convertible bond at a nominal value of CHF 50 m that was issued in 2011 was terminated prematurely as of 28 December 2015. Except for a nominal residual amount of CHF 280,000, which was fully repaid, the bond was fully converted. Thus, there were no more outstanding bonds as at 31 December 2015.

Group structure

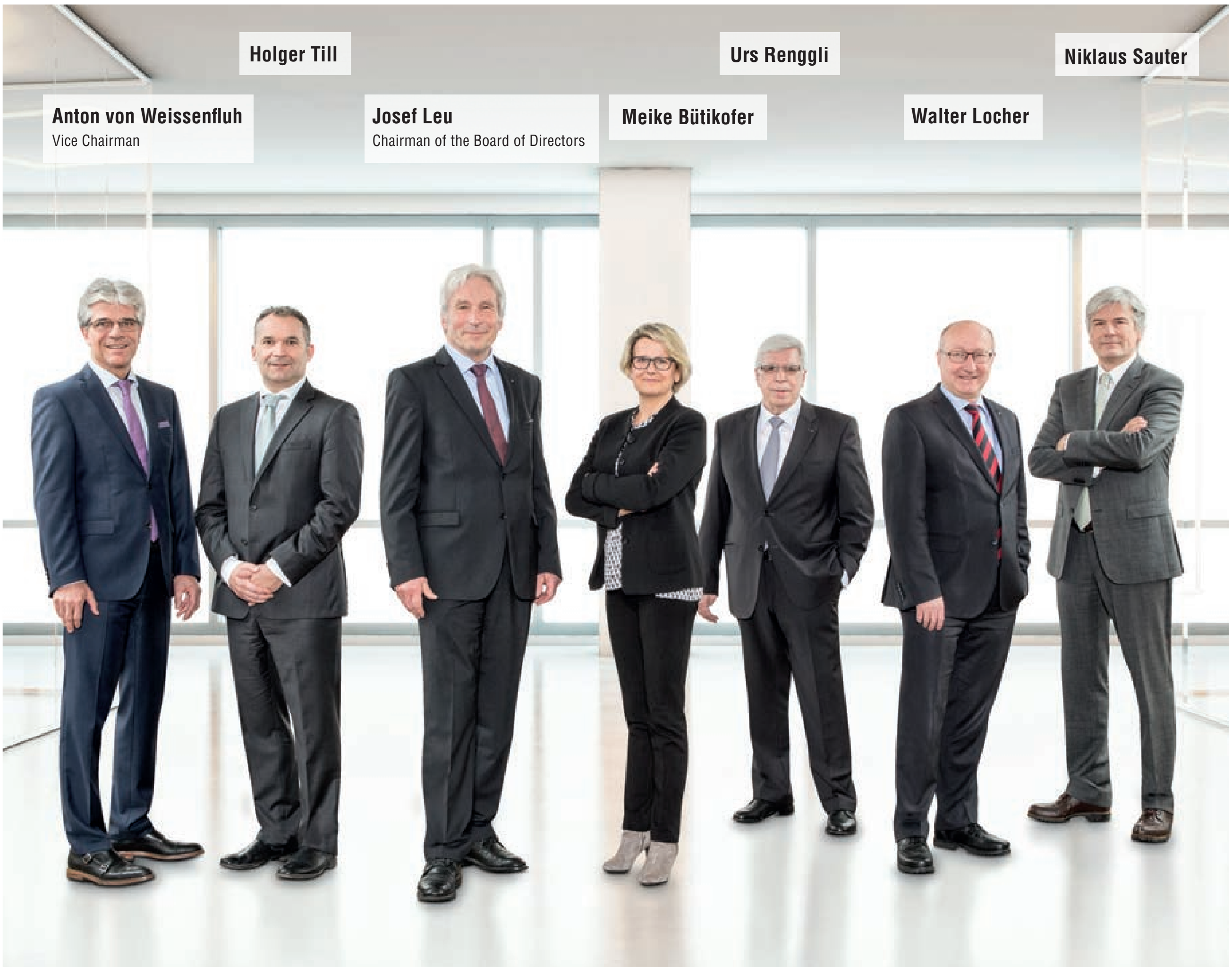
		HOCHDORF Holding Ltd 6281 Hochdorf **CHF 14,347,600**			
100%	**HOCHDORF Swiss Nutrition Ltd** 6281 Hochdorf **CHF 30,000,000**	100%	**HOCHDORF Baltic Milk UAB** LT-41456 Birzai **EUR 5,792,400**	60%	**Uckermärker Milch GmbH** DE-17291 Prenzlau **EUR 10,000,000**
100%	**HOCHDORF Nutricare Ltd** 6281 Hochdorf **CHF 1,200,000**	100%	**HOCHDORF Deutschland GmbH** DE-53721 Siegburg **EUR 200,000**	26%	**Ostmilch Handels GmbH** DE-61348 Bad Homburg **EUR 1,000,000**
100%	**HOCHDORF Swiss Whey Ltd** 6281 Hochdorf **CHF 100,000**	100%	**Marbacher Ölmühle GmbH** DE-71672 Marbach **EUR 2,000,000**	26%	**Ostmilch Frischdienst Magdeburg GmbH** DE-39179 Meitzendorf **EUR 25,000**
100%	**Schweiz. Milch-Gesellschaft AG** 6281 Hochdorf **CHF 100,000**	90%	**HOCHDORF South Africa Ltd** SA-7741 Cape Town **ZAR 500,000**	26%	**Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG** DE-09661 Schlegel **EUR 51,129.20**
		60%	**HOCHDORF America's Ltd** UY-11000 Montevideo **UYU 72,000**		

3. Board of Directors

3.1. Members of the Board of Directors

In 2015, the Board of Directors of HOCHDORF Holding Ltd consisted of seven non-executive members. None of the members previously belonged to the Group Management, and no member has any material business relationship with the issuer or one of the issuer's group companies. The members were elected by the General Meeting for a term of one year until the next Annual General Meeting. Members may be re-elected. Current members of the Board of Directors who are nominated for re-election are elected on individual ballots. The Chairman and any new members of the Board of Directors are elected on individual ballots. All elections and votes are conducted openly, unless the majority requests secret ballots. The retirement age for members of the Board of Directors is 70. They leave the Board of Directors at the next General Meeting after turning 70. In the reporting period, the Board of Directors did not undergo any changes. Urs Renggli submitted his notice of resignation, effective as of the 2016 Annual General Meeting.

Name	Born	Nationality	Member since	Elected in	Elected until
Josef Leu, Chairman	1950	Switzerland	2002	2015	2016
Anton von Weissenfluh, Vice Chairman	1956	Switzerland	2005	2015	2016
Meike Bütikofer	1961	Switzerland	2009	2015	2016
Urs Renggli	1951	Switzerland	2008	2015	2016
Walter Locher	1955	Switzerland	2014	2015	2016
Niklaus Sauter	1962	Switzerland	2014	2015	2016
Holger Karl-Herbert Till	1962	Germany	2014	2015	2016



3.2. Professional background and other activities and interests

Josef Leu

1950; **Place of residence:** Hohenrain LU; **Member of the Board of Directors since:** 2002. **Chairman since:** 2014. **Training/degree:** Ing. HTL. in agriculture and dairy industry in Zollikofen BE. **Professional background:** Farm manager and owner until 2011; Board Member and Audit Committee member of Migros-Genossenschafts-Bundes MGB until 30 June 2008; member of the Swiss National Council from 1991 to 2006 (CVP faction); 2006 to 2015 Head of DDPS claims Centre, Bern. **Professional activity:** Freelancer since September 2015. **Other activities:** None.

Dr Anton von Weissenfluh

1956; **Place of residence:** Kriens LU; **Member of the Board of Directors since:** 2005. **Vice Chairman since:** 2014. **Training/degree:** Studies in food sciences at ETH Zurich, major in dairy science; Dipl. LM. Ing. ETH; Dr. sc. techn. **Professional background:** Five years in executive positions at Weichkäserei Baer in Küssnacht AG, three years in executive management at Galactina AG Belp (baby food production); 15 years in executive management of Kambly SA, Trubschachen, five years as CEO. **Professional activity:** CEO of Chocolats Halba, Wallisellen since 2006. **Other activities:** Board Chair (VRP) of Chocolats Halba Honduras since 2014.

Meike Bütikofer

1961; **Place of residence:** Wangen SZ; **Member of the Board of Directors since:** 2009. **Training/ degree:** Agricultural Engineer (Diplom); Master of Science in Animal Nutrition and Management with an additional qualification in veterinary medicine (Swedish University of Agriculture Science Uppsala); Executive MBA (University of St. Gallen). **Profes-**

sional background: 1989 to 1991 Head of Marketing for Feed in Scandinavia, ZIWAG AG, Oberentfelden; 1991 to 1993 PR consultant ATAG Ernst & Young Consulting AG, Bern; 1993 to 1997 Head of Profit Centre Quality and Environmental Management, Electrowatt Engineering AG, Zurich; 1997 to 2002: Head of Strategy Balanced Scorecard Siemens Building Technologies AG, Zurich, Corporate Development and Siemens AG, Munich. **Professional activity:** Owner of Butikofer AG – value-oriented enterprise strategies, Hergiswil, since 2002. **Other activities:** Member of the Board of Directors of the IE-Engineering Group, Zurich, since 2006; Member of the Board of Directors of René Faigle AG, Zurich since 2011; member of the Swiss Mountain Aid since 2011; Member of the Foundation Board of the Brunau Foundation, Zurich, since 2012; Expert of the Commission for Technology and Innovation (CTI) of the federal government since 2015.

Dr Walter Locher

1955; **Place of residence:** St. Gallen; **Member of the Board of Directors since:** 2014. **Training/degree:** Dr. iur., licensed attorney and admitted as notary (Canton of St. Gallen). **Professional background:** Studies in jurisprudence at the University of Zurich; doctorate in 1982. **Professional activity:** Self-employed attorney with own law firm in St. Gallen since 1988. **Other activities:** Member of the Cantonal Council of St. Gallen since 2003 (FDP faction); 2010/2011 president of the cantonal parliament; Member of various foundation boards and boards of directors (e.g. Chairman of the Board of Directors of Druckguss Systeme AG, St. Gallen; member of the Board of Directors of Gebrüder Knie, Schweizer National-Circus AG, Rapperswil; member of the Board of Directors of René Faigle AG, Zurich); President of Homeowners Association (HEV) of the Canton of St. Gallen.

Urs Renggli

1951; **Place of residence:** Kriens LU; **Member of the Board of Directors since:** 2008. **Training/degree:** lic. oec. publ.; certified auditor. **Professional background:** 1977 to 1981, responsibilities in IT and internal auditing at Schweizerische Kreditanstalt, Zurich; followed by 26 years of experience in auditing and consulting at top management level at PricewaterhouseCoopers, Lucerne. **Professional activity:** Independent consultant. **Other activities:** Chairman of the telephone counselling association «Die Dargebotene Hand Zentralschweiz»; employer representative of the HOCHDORF Group pension fund.

Niklaus Sauter

1962; **Place of residence:** Weinfelden TG; **Member of the Board of Directors since:** 2014. **Training/degree:** lic.rer.pol. **Professional background:** 1988 to 1989 management consulting in Germany; 1990 to 1992 group planning, UBS; 1992 to 1999 executive, Sauter Group, as CEO from 1996; 1999 to 2009 CEO of Belimed Sauter AG, Sulgen; 2005 to 2012 CEO of the Belimed Group, Zug. **Professional activity:** Independent entrepreneur with consulting activity and investment projects since 2012. **Other activities:** Member of the Foundation Board of the Thurgau Foundation for Science and Research; board member of two other SME.

Prof Dr Holger Karl-Herbert Till

1962; **Place of residence:** Graz, Austria; **Member of the Board of Directors since:** 2014. **Training/degree:** Prof. Dr. med. **Professional background:** Graduate, doctorate and post-doctorate degrees in human medicine at various universities; 1999 to 2004 Chief of the Paediatric Surgery Clinic of LMU Munich; 2004 to 2005 Associate Professor at the Chinese University of Hong Kong, Department of Surgery, Division of Paediatric Surgery; 2006 to 2012 director and professor, Clinic and Polyclinic for Paediatric Surgery, University of Leipzig. **Professional activity:** Head of Paediatric and Youth Surgery Department, Medical University of Graz since 2012; board member of the University Clinic for Paediatric and Youth Surgery, Medical University of Graz since 2013. **Other activities:** None.

Pursuant to Article 15 of the Articles of Association, the maximum number of other mandates that members of the Board of Directors may hold is:

a) Three mandates as board member or as member of other top executive or governing bodies of public companies pursuant to Art. 727 (1) no. 1 of the Swiss Code of Obligations (CO);
b) and additionally Five mandates as board member or as member of other top executive or governing bodies of companies in the meaning of Art. 727 (1) no. 2 of the Swiss Code of Obligations (CO);
c) and additionally 10 mandates as board member or as member of other executive or governing bodies of other legal entities that do not meet the aforementioned criteria.

3.3. Functioning of the Board of Directors

The Board of Directors meets at least five times each year and as often as business requires. In 2015, the Board of Directors met for six regular meetings, four extraordinary meetings and one full-day strategy day with the Group Management. In addition, the Chairman of the Board of Directors meets with the CEO every three weeks for a work session. The CEO and the CFO participate in meetings of the Board of Directors on all agenda items in an advisory capacity. When required, the Board of Directors also invites external specialists and other members of the Group Management for advice on specific topics. The Board of Directors is responsible for the strategic direction of the company, supervision of Group Management and financial control. The Board of Directors monitors the company objectives and identifies opportunities and risks. It also appoints the members of Group Management. The Board of Directors has quorum when the majority of its members are present. A valid resolution requires the majority of the votes cast. In the event of a tie, the Chairman of the Board of Directors has the deciding vote.

3.4. Committees of the Board of Directors

The Board of Directors has three permanent committees: The Audit Committee (AC), the Personnel and Remuneration Committee (PRC), and the Market and Strategy Committee (MSC). In order to organise its duties efficiently and effectively, the Board of Directors relies on recommendations of these committees. At least two non-executive members of the Board of Directors belong to each committee. The committees are subject to regular performance assessments (self-evaluation).

Audit Committee

Members: Urs Renggli (chair), Josef Leu, Walter Locher. The main duties of this committee are:

- Checking the effectiveness of the external audits and of the internal control.
- Evaluating management directives with regard to financial risks and adherence to these directives.
- Discussing financial statements with the CFO and the head of external audits.
- Evaluating the performance and assessing the auditing agency and its independence.
- Evaluating the risk management procedure.

In 2015, the Audit Committee met five times. In addition to the standard agenda points, particular attention was paid to the operability and effectiveness of the internal control system (ICS) as part of risk management, and a special audit was conducted in the field of contracts/compliance and ICS Audit HOCHDORF Baltic Milk UAB.

Personnel and Remuneration Committee

Members: Anton von Weissenfluh (chair), Josef Leu, Niklaus Sauter. The main duties of this committee are:

- Making recommendations for the compensation of the members of the Board of Directors and of the Group Management.
- Working out the principles for an overall compensation plan for all employees that is market and performance based.
- Drawing up employment contracts for the members of the Group Management.

The Personnel and Remuneration Committee met six times.

Market and Strategy Committee

Members: Meike Bütikofer (chair), Anton von Weissenfluh, Holger Karl-Herbert Till. The main duties of this committee are:

- Reviewing and evaluating the long-term vision, mission and values of the HOCHDORF Group.
- Evaluating decisions that are of strategic relevance, particularly those focused on value creation, in order to advise and support the Board of Directors.
- Monitoring potential changes in the basic conditions concerning the strategy approved by the Board of Directors.
- Reviewing the organisational structure based on the strategy and the staff composition of Group Management.

The Market and Strategy Committee met three times.

3.5. Group Management and competencies

The Board of Directors is responsible for the overall management of the company and the Group, as well as the supervision of the Group Management. According to Article Pursuant to Art. 716a of the Swiss Code of Obligations (CO), it has the following non-transferable and inalienable duties:

- The overall control of the company and the Group, including the definition of medium and long-term strategies and planning objectives, as well as the guidelines for company policy and the issuing of required directives.
- Defining the basic organisation of the company and its associated regulations.

- Defining the guidelines for the organisation of accounting systems, financial monitoring and financial planning.
- Appointing and dismissing persons entrusted with the Group Management and representation of the company, namely the CEO, and issuing signature authorisations.
- Supervising the organs entrusted with the management of the company, specifically with regard to adherence to laws, statutes, regulations and directives.
- Creating the annual report; preparing for the General Meeting and implementing its decisions.
- Informing the legal authorities in the case of insolvency.
- Determining capital increases and the corresponding amendments to the Articles of Association.

Based on the duties mentioned above, the Board of Directors of HOCHDORF Holding Ltd deliberates and adopts resolutions on the following matters:

- Annual and investment budgets.
- Annual and half-yearly financial statements.
- Group organisational chart up to and including the Group Management level.
- Payroll policy.
- Assessment of the main risks.
- Investments outside of the budget of more than CHF 0.5 million.
- Multi-year financial and liquidity planning.
- Strategy-relevant partnerships and agreements, in particular purchase and sale of investments, companies, parts of companies, business branches and rights to products or intellectual property rights.
- Foundation and dissolution of companies.
- Nomination of candidates for the Board of Directors for the attention of the General Meeting.
- Election of the members of the Boards of Directors of the subsidiaries.
- Group regulations of strategic importance.

The Board of Directors fully delegates all remaining areas of company management to the CEO, who has the right to issue directives to the other members of the Group Management. The Board of Directors may – on a case-by-case basis or in connection with its general reservation of competencies – intervene at any time in the duties and competencies of hierarchically subordinate bodies and assume control of the business conducted by these bodies («powers reserved»).

The CEO chairs the Group Management. The chair leads, monitors and coordinates the members of the Group Management and supplies them with the authorisations required to fulfil their roles. Under the law, Articles of Association and organisational regulations governing the HOCHDORF Group, the chair holds the necessary authorisations to manage the HOCHDORF Group. In particular, the chair is responsible for the following tasks:

- Implementing the strategic objectives, defining key operational areas and priorities as well as ensuring the availability of the material and staffing resources required to fulfil these.
- Managing, monitoring and coordinating the remaining members of the Group Management.
- Convening, preparing and presiding over Group Management meetings.
- Regularly informing the Chairman of the Board of Directors/the entire Board of Directors about the business development. In the event of important or unexpected business occurrences, the Chairman of the Board of Directors is to be informed without delay.
- Representing the Group both internally and externally.

The members of the Group Management manage the daily business independently. In this regard, the competencies and responsibilities are determined especially by the budget approved by the Board of Directors and the strategy defined by it, as well as by the organisational regulations of the HOCHDORF Group.

3.6. Information and control instruments with regard to the Group Management

At all meetings, the Chairman, the Committee Chairs, the CEO, the CFO and, depending on the agenda item, other members of the Group Management inform the Board of Directors on matters concerning the business development, financial situation and key business occurrences. The Chairman receives information from the CEO at least every three weeks and receives the minutes of the Group Management meetings. Extraordinary events are promptly communicated to the members of the Board of Directors via circular.

The HOCHDORF Group's Management Information System (MIS) consists of management reporting and business and financial reporting. It is available to the Group Management on a monthly basis. The Board of Directors receives monthly business and financial reports. The Group's consolidated financial statements are generated on a monthly basis and presented to the Board of Directors on a quarterly basis together with detailed explanations.

Other management tools include the company policy and three-year financial planning as well as the strategies of the three business areas Dairy Ingredients, Baby Care, and Cereals & Ingredients.

At least once a year, the chair of the Audit Committee and the CFO provide the Board of Directors with information for its approval concerning major risks, along with their assessment of how relevant and likely such risks are. The Board of Directors monitors the implementation of the risk management measures that are defined and to be undertaken by Group Management.

The Audit Committee evaluates the effectiveness of the internal and external control systems, as well as the risk management organisation and process, in the HOCHDORF Group. The external auditor Ernst & Young AG, which is in direct contact with the chair of the Audit Committee, constitutes a further information and control system.

4. Group Management

4.1. Member of the Group Management
As at 31 December 2015, the Group Management consisted of Dr Thomas Eisenring (CEO), Marcel Gavillet (CFO), Christoph Peternell (COO), Werner Schweizer (Managing Director Dairy Ingredients), Fons Togtema (Managing Director Baby Care), Michel Burla (Managing Director Cereals & Ingredients), Frank Hoogland (Head Global Marketing and Sales) and Dr Karl Gschwend (Managing Director Strategic Projects).

4.2. Professional background and other activities and interests

Dr Thomas Eisenring

1965; Swiss citizen; **Place of residence:** Winterthur ZH. **Position:** CEO since 2013. **Training/degree:** Mechanic, Dr. oec. University of St. Gallen. **Professional background:** 1985 to 1991 aircraft mechanic, Swissair, Zurich airport; 1993 to 1997 senior consultant, Schuh & Co Complexity Management, St. Gallen; 1998 to 2000 interim regional manager (Rhine/Ruhr), Peiniger Group, Leverkusen, Germany; 2000 to 2002 Director in the field of Business Regeneration Services, PricewaterhouseCoopers, Zurich; 2002 to 2008 Chairman of the Board of Directors, CEO and Head of Sales SEVEX AG, Sevelen; 2008 to 2013 member of the executive management and principal partner of ZIFRU Trockenprodukte GmbH, Zittau, Germany. **Other activities:** Chairman of the Boards of Directors of all HOCHDORF subsidiaries in Switzerland and of HOCHDORF Baltic Milk UAB; Managing Director of Uckermärker Milch GmbH, Prenzlau, Germany and of Marbacher Ölmühle GmbH, Marbach, Germany; Chairman of the foundation board of the HOCHDORF Group pension fund.

Marcel Gavillet

1962; Swiss citizen; **Place of residence:** Retschwil LU. **Position:** CFO since 2003. **Training/degree:** University of applied sciences FH; MAS Corporate Finance; Certified IFRS Accountant. **Professional background:** 1996 to 1999 Head of Finance and Accounting at Nutriswiss AG, Lyss, then Managing Director from 1999 to 2003. **Other activities:** Active as member of the Board of Directors of the subsidiaries in Switzerland and abroad; Managing Director of the HOCHDORF Group pension fund.

Christoph Peternell

1965, German citizen; **Place of residence:** Zug, Konstanz, Germany. **Position:** COO since June 2015. **Training/degree:** Graduate food engineer (Diplom) at the University of Hohenheim, Germany. **Professional background:** 1994 to 2005 Head of the Production Unit and member of the extended management, Molda AG, Germany; 2005 to 2008 Managing Director Plant Operations and Head of Plant Operations, Fresh Start Bakeries INC., Germany; 2008 to 2015 various national and international mandates as independent interim operations manager of food enterprises. **Other activities:** None.

Michel Burla

1967; Swiss citizen; **Place of residence:** Lyss BE. **Position:** Managing Director Cereals & Ingredients since 2013. **Training/degree:** Studies in natural sciences, degree in microbiology, University of Basel. **Professional background:** 1995 to 1998 Product and Sales Manager Switzerland, BioConcept, Allschwil; 1998 to 2003 Sales Manager EMEA, Flachsmann, Wädenswil; 2003 to 2008 Business Unit Manager and member of Group Management, Frutarom, Wädenswil; 2008 to 2010 Marketing Manager Food Ingredients, Univar, Zurich; 2010 to 2013 Manager Business Support and Business Development, Narimpex, Biel. **Other activities:** Managing Director of Marbacher Ölmühle GmbH.

Dr Karl W. Gschwend

1953, Swiss citizen; **Place of residence:** Altnau TG. **Position:** Managing Director Strategic Projects since

1998. **Training/degree:** Studies in natural sciences at ETH Zurich; doctorate at the Institute for Biotechnology at ETH Zurich in 1982; SKU (Swiss Courses in Enterprise Management), diploma in strategic business management. **Professional background:** 1983 to 1986 Head of the Biological Equipment Construction department, Giovanola Frères SA, Monthey; 1986 to 1997 Management of Obipektin AG, Bischofszell; 1998 to 2003 Plant Manager HOCHDORF Nutritec Ltd, Hochdorf; 2003 to 2005 Managing Director of Switzerland. Milchgesellschaft AG, Sulgen; 2006 to 2014 Managing Director of HOCHDORF Nutritec Ltd; since 2015 Managing Director Strategic Projects. **Other activities:** 2002 to 2011 Chairman of the Swiss Society of Food Science and Technology (SGLWT); 2010 to 2011 Chairman of the Society of Milk Science; advisor of the Institute of Food and Beverage Innovation of the Zurich University of Applied Sciences (ZHAW), Wädenswil; Officer in charge of coordinating the scientific research of the HOCHDORF Group; 2015: Industrial Advisory Board, Dept. of Health Sciences and Technology (D-HEST) ETH Zurich.

Frank Hoogland

1972, Dutch citizen; **Place of residence:** Horgen ZH. **Position:** Head of Global Marketing & Sales since September 2015. **Training/degree:** MAS in Business Economics with major in marketing & marketing research at Tilburg University, Netherlands. **Professional background:** Product Business Manager, Philips N.V., Netherlands, until 2001; 2001 to 2003 Manager Private Label, Laurus N.V. (retail), Netherlands; 2003 to 2007 International Marketing Manager, Friesland Foods N.V., Asia-Pacific, Middle East & Africa; 2007 to 2012 Marketing Director, Hero AG, Benelux and China; 2012 to 2015 Business Development Director Baby Food, Fonterra in China. **Other activities:** None.

Werner Schweizer

1955; Swiss citizen; **Place of residence:** Kriens LU. **Position:** Managing Director Dairy Ingredients since 2006. **Training/degree:** Studies in food sciences at ETH

Zurich, awarded dipl. LM Ing. ETH Zurich in 1979; SKU (Swiss Courses in Enterprise Management), diploma in strategic business management in 2009. **Professional background:** 1979 to 1982 specialist teacher at the dairy science school Sursee; 1983 to 1987 Nestec, Head of Production Nestlé Lanka, Sri Lanka; 1988 to 1990 Laiteries Réunies de Genève, Head of QM and E&A; 1991 to 1997 QM Schweizer & Stierli AG, Partner, Lucerne; 1998 to 2005 Head of Marketing Industry/Head of Business Segment Milk HOCHDORF Nutritec Ltd. **Other activities:** Board member of the Swiss Milk Industry Association (vmi); Board member of the Milk Sector Organisation; Managing Director of HOCHDORF Baltic Milk UAB.

Fons Togtema

1964; Dutch citizen; **Place of residence:** Retschwil LU. **Position:** Managing Director Baby Care since May 2015. **Training/degree:** Agricultural engineer with major in economics at the University of Prof Education, Netherlands. **Professional background:** 1997 to 1998 Commercial Director Europe, Universal Dehydrates (now Sensinent Technologies Corp.), France; 1998 to 2000 Business Unit Director Benelux, Schering Plough Animal Health, Netherlands/Belgium; 2000 to 2006 Manager Business Development, Infant Nutrition, FrieslandCampina, Netherlands; 2006 to 2015 Sales Director Baby Care of HOCHDORF Swiss Nutrition Ltd, Switzerland. **Other activities:** Member of the Board of Directors of HOCHDORF Americas Ltd.

Pursuant to Article 24 of the Articles of Association, the maximum number of additional mandates that the members of the Group Management hold is:

a) One mandate as board member or as member of other top executive or governing bodies of public companies pursuant to Art. 727 (1) no. 1 of the Swiss Code of Obligations (CO); and additionally 727 (1) no. 1 of the Swiss Code of Obligations (CO);
b) Three mandates as board member or member of other top executive or governing bodies of companies in the meaning of Art. 727 (1) no. 2 of the Swiss Code of Obligations (CO); and additionally 727 (1) no. 2 of the Swiss Code of Obligations (CO);
c) Five mandates as board member or as member of other executive or governing bodies of other legal entities that do not meet the aforementioned criteria.

5. Compensation, participations, loans

Since the implementation of the Minder initiative through the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) on 1 January 2014, the Remuneration Report has replaced the Corporate Governance Policy in this area. Concerning the required disclosures, please refer to the Remuneration Report from page 52.

6. Shareholders' rights of co-determination

6.1. Restrictions to voting rights and proxy voting
All shareholders recorded in the shareholder register are entitled to attend and vote at the Annual General Meeting. The restriction on voting rights amounts to 5% of the share capital. Any shareholder can give written authority to a fellow shareholder or appoint an independent proxy to vote at the Annual General Meeting on his or her behalf. There is no statutory quorum.

Art. 12 of the Articles of Association address the assignment of the voting right to an independent proxy, as well as the ability to electronically cast a vote to the independent proxy.

The Articles of Association can be downloaded from the HOCHDORF Group website under «Investor Relations»: http://www.hochdorf.com/en/investors/corporate-governance (available in German only).

6.2. Statutory quorum
The General Meeting adopts its resolutions and conducts its elections by relative majority of the votes cast, with abstentions being left out of consideration in determining the majority and excluding blank and invalid votes, unless the law provides otherwise.

6.3. Convening of the General Meeting
The Annual General Meeting takes place annually, at the latest six months after the end of the financial year. It is convened by the Board of Directors. The statutory provisions apply to the convening of extraordinary General Meetings. Personal invitations to the General Meeting are sent out in writing at least 20 days before the General Meeting.

6.4. Agenda
Invitations to submit items for the agenda and questions about the annual report are included with the invitation to the General Meeting.

6.5. Entries in the share register

Entries in the share register Normally, the shareholder register is closed ten days prior to the General Meeting. Upon request, the Board of Directors can approve exceptions for late submissions. The effective date of closure is published in the notice of the General Meeting and is also published in a timely manner in the financial calendar on the HOCHDORF Group website: www.hochdorf.com/en/investors/financial-calendar.

7. Change of control and defensive measures

7.1. Duty to make an offer

The Articles of Association of HOCHDORF Holding Ltd do not contain any opting-out or opting-up clauses in the meaning of Article 22 of the Swiss Stock Exchange Act (SESTA) with respect to the statutory duty to submit a takeover offer.

7.2. Change-of-control clauses

There are no change-of-control clauses with members of the Board of Directors or Group Management.

8. Auditor

8.1. Duration of the mandate and term of the chief auditor

The General Meeting elects the auditor for terms of one year. Ernst & Young AG, Lucerne, was elected auditor of HOCHDORF Holding Ltd and its subsidiaries for 2015. Bernadette Koch has been the chief auditor since 2014. Ernst & Young AG has been the auditor since 2014.

8.2. Audit fee

Calculated on an accrual basis, the expenses of the auditor Ernst & Young AG for the audit of the individual financial statements and the consolidated financial statements for 2015 amounted to approximately CHF 98 thousand (exclusive of VAT).

8.3. Additional fees

Additionally, expenses of CHF 49 thousand (exclusive of VAT) are included in the reporting period for consulting services of Ernst & Young.

8.4. Instruments for supervising and controlling the audit

The Audit Committee of the Board of Directors assesses the performance, invoicing and independence of the external auditors and makes recommendations to the Board of Directors. Every year, the Audit Committee checks the scope of the external audits, the audit plans and the relevant processes and discusses the audit results with the external auditors. In 2015, the chief auditor attended three meetings of the Audit Committee.

9. Information policy

Guidelines for investor relations: The HOCHDORF Group maintains open and ongoing communication with shareholders, potential investors and other stakeholder groups. The aim is to provide timely, up-to-date, and transparent information about the company, its strategy and business development, and to offer a truthful picture of the past and current performance of the HOCHDORF Group and its outlook for the future. This picture is intended to reflect the current assessment of the Group by the Board of Directors and the Group Management.

In keeping with regulations prescribed by the SIX Swiss Exchange, the HOCHDORF Group publishes a comprehensive Annual Report that includes the business activities, Corporate Governance, Remuneration Report and financial reporting that is generated and audited in accordance with Swiss GAAP FER. Moreover, a half-year report is prepared in accordance with Swiss GAAP FER guidelines. In addition, press releases about events relevant to the stock exchange, such as acquisitions, minority or majority investments, joint ventures and alliances, are published in accordance with the ad-hoc publicity guidelines.

The CEO, the CFO and the Head of Corporate Communications are responsible for communication with investors. During the course of the year, this group meets with institutional investors, presents its results and conducts road shows. The HOCHDORF Group uses the Internet to provide information speedily, simultaneously and consistently. The Swiss Official Gazette of Commerce is the publication medium of HOCHDORF Holding Ltd.

Press releases and investor information are available under the following link:

› Investor relations: http://www.hochdorf.com/en/investors

Moreover, shareholders and others who are interested in the HOCHDORF Group can subscribe to a newsletter. This newsletter provides ad-hoc notifications and press releases:

› Newsletter: www.hochdorf.com/en/investors/newsletter

Further information on the Group is available online at www.hochdorf.com. Reports to the SIX Exchange Regulation about shareholdings that exceed the reportable voting right limits can be found on the following Internet page: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html. In 2015, HOCHDORF Holding Ltd underwent various reportable shareholding changes.

Contact for investor relations:

HOCHDORF Holding Ltd, Investor Relations, Siedereistrasse 9, CH-6280 Hochdorf, tel: +41 41 9146562, e-mail: ir@hochdorf.com.

The Annual General Meeting will take place on 6 May 2016. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by mail.

The next business results (half-year results 2016) will be published on Wednesday, 17 August 2016.

Remuneration

Remuneration Report

The remuneration report summarises all the key principles for determining the compensation of the Board of Directors and Group Management and also explains the structure and amount of compensation.

HOCHDORF places great importance on recruiting, committing, motivating, and fostering well-qualified employees at all levels. This is particularly important when it comes to staffing those positions that have a significant bearing on the management of the company. Remuneration is thus designed in such a way as to create incentives that benefit the long-term development of the company. Performance evaluations are conducted on a qualitative basis in annual employee review meetings, at which personal targets and performance are assessed in general terms, as well as according to quantitative assessment criteria, which are derived from the current financial results.

Ordinance Against Excessive Compensation (VegüV) – amendment of the Articles of Association

Pursuant to the Ordinance Against Excessive Compensation (VegüV), the Annual General Meeting is to decide on the remuneration of the Board of Directors and Group Management. The corresponding amendment of the Articles of Association was adopted at the 2015 Annual General Meeting. Article 19, Remuneration of the Board of Directors, provides that the Annual General Meeting decides on total remuneration for the current year until the next ordinary Annual General Meeting. Pursuant to Article 23, Remuneration of Group Management, the Annual General Meeting approves fixed and variable remuneration for the current year.

Decision-making responsibilities Topic	Recommended by	Approved by
Remuneration paid to the Board of Directors	Personnel and Compensation Committee	Board of Directors
Fixed remuneration paid to Group Management (subsequent year)	Personnel and Compensation Committee	Board of Directors
Variable remuneration paid to Group Management (subsequent year)	Personnel and Compensation Committee	Board of Directors

Each year, the Annual General Meeting separately approves the proposed resolutions of the Board of Directors concerning the maximum total amounts of compensation to be paid to the Board of Directors for the period until the next ordinary General Meeting and the compensation to be paid to Group Management for the current year.

Remuneration of the Board of Directors

Compensation paid to the Board of Directors consists of a fixed remuneration and a fixed expenses allotment, which are not linked to any profit components. The social contributions to be remitted in relation to remuneration are covered by the company and then offset accordingly.

The amount of the emoluments paid to the Board of Directors is set based on a discretionary decision. In so doing, the Board of Directors relies on published studies on director remuneration, publicly available information on fees paid by listed companies in the same industry, as well as comparisons with remuneration paid for other director mandates.

Compensation includes a base amount for all members of the Board of Directors, a supplementary payment for work as Chairman or Vice Chairman, as well as flat-rate compensation for work on committees and for expenses.

The fees were most recently modified at the meeting of the Board of Directors on 23 October 2014.

The figures show the amounts actually paid out in the reporting period. The members of the Board of Directors are not covered by the pension fund.

Remuneration of the Board of Directors	Compensation	Social benefits	Expenses	2015 CHF	2014 CHF
Josef Leu, Chairman, AC, PCC	95,000	11,799	5,155	111,954	92,141
Anton von Weissenfluh, Vice Chairman, PCC, MSC	63,000	9,395	5,000	77,395	65,051
Meike Bütikofer, MSC	53,000	7,904	5,000	65,904	57,385
Walter Locher, AC	55,000	8,202	5,000	68,202	39,811
Urs Renggli, AC	64,000	9,693	5,000	78,693	69,580
Niklaus Sauter, PCC	51,000	7,606	5,000	63,606	37,127
Holger Karl-Herbert Till, MSC	51,000	7,606	5,000	63,606	37,127
Hans-Rudolf Schurter, Chairman, until 10 May 2014	0	0	0	0	36,947
Rolf Schweiger, until 10 May 2014	0	0	0	0	17,024
Total	**432,000**	**62,205**	**35,155**	**529,360**	**452,193**

AC = Audit Committee; PCC = Personnel and Compensation Committee; MSC = Market and Strategy Committee

The Annual General Meeting on 8 May 2015 approved a total amount of CHF 535,000 for the current term of office until the 2016 AGM. This total amount was not exceeded. The following remuneration is envisioned for the term of office starting with the 2016 Annual General Meeting, with social contributions being factored in at the flat rate of 15%:

Remuneration of the Board of Directors in CHF	Compensation	Meetings committees	Social benefits	Expenses	2016 CHF
Josef Leu, Chairman, PCC	55,000	30,000	12,750	5,000	102,750
Anton von Weissenfluh, Vice Chairman, PCC, MSC	49,000	14,000	9,450	5,000	77,450
Meike Bütikofer, MSC	45,000	8,000	7,950	5,000	65,950
Walter Locher, AC	45,000	10,000	8,250	5,000	68,250
Urs Renggli, AC	45,000	19,000	9,600	5,000	78,600
Niklaus Sauter, AC, PCC	45,000	16,000	9,150	5,000	75,150
Holger Karl-Herbert Till, MSC	45,000	6,000	7,650	5,000	63,650
Total	**329,000**	**103,000**	**64,800**	**35,000**	**531,800**

The total amount for 2016 to be put to a vote comes to CHF 535,000, as rounded.

Remuneration of Group Management

Compensation paid to Group Management is composed of a fixed basic salary and variable, performance-related remuneration, with variable compensation for each position being based on the consolidated EBIT of the Group or on the EBIT of the respective business area. Total compensation also includes retirement benefits, service benefits, and benefits in kind. The Board of Directors defines the details in the compensation regulations. There are no share or option plans or similar shareholding programmes in the HOCHDORF Group.

The Board of Directors sets the amount of the emoluments paid to Group Management. In so doing, it relies on the recommendation and proposed resolution of the Personnel and Compensation Committee.The Board of Directors defines the range of total compensation and the strategic targets. As is the case with other members of Group Management, the CEO's compensation is composed of a fixed basic salary and variable, performance-related compensation. For the CEO, variable remuneration amounts to 2.5% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million. The employment agreement is concluded for an indefinite period of time, with a notice period of six months.

For all other members of Group Management, the general achievement of personal targets, as well as company results, forms the basis for the decision on compensation. Variable remuneration is individual-specific. Depending on the business area and the position, it amounts to 0.5% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million, or between 0.75% and 5% of the EBIT generated by the individual's business area. The employment agreements are concluded for an indefinite period of time, with a notice period of four or six months.

The amounts are calculated according to the accrual principle in accordance with the provisions of the VegüV.

Remuneration paid to the CEO and Group Management	Group Management Total		CEO	
In CHF (gross)	2015	2014	2015	2014
Basic salary [1]	1,660,237	1,484,347	467,800	433,350
Variable remuneration	1,151,725	960,861	503,641	500,388
Social contributions, including personal pension	425,756	395,208	136,208	135,869
Other benefits [2]	129,883	103,495	28,000	28,000
Total	**3,367,601**	**2,943,911**	**1,135,649**	**1,097,607**
Benefit with effective variable remuneration for the financial year		2,837,832		1,094,405
Number of members of Group Management	8	6		

1) Monthly salary, 13th monthly salary payment, flat-rate amount for entertainment expenses.

2) Private apportionments for company cars, car allowances, gifts for length of service, and reimbursement of school fees.

The Annual General Meeting on 8 May 2015 approved a total amount of CHF 3,200,000 for the 2015 reporting period. The approved amount was exceeded because two new members joined Group Management: Christoph Peternell (starting 1 June 2015) and Frank Hoogland (starting 14 September 2015). As described below in Article 23 of the Articles of Association, an additional amount may be paid to new members if the remuneration approved by the Annual General Meeting is not sufficient. The additional amount may not exceed 30% of the most recently approved maximum amount of fixed compensation for Group Management. This upper limit was not exceeded.

Based on contractual agreements and the calculation of variable remuneration using the budgeted results for 2016, the total amount for 2016 to be put to a vote is composed of the following:

Remuneration paid to the CEO and Group Management	Group Management Total	CEO
In CHF (gross)	2016	2016
Basic salary	1,948,975	467,800
Variable remuneration	1,380,553	575,724
Social contributions	490,264	143,423
Other benefits	176,800	28,000
Total	**3,996,592**	**1,214,947**
Number of members of Group Management	**8**	

Variable compensation paid to Group Management amounts to an average of 5% of EBIT. In order to be able to cover the possibility that the budget may be exceeded in 2016, a reserve of 50% was factored in, which amounts to about CHF 700,000 in additional variable remuneration.

The total amount for 2016 to be put to a vote comes to CHF 4,700,000, as rounded.

Pursuant to Article 23 of the Articles of Association, the company or companies controlled by it are authorised to pay each member who joins Group Management or is promoted within Group Management after the time at which the total amount of fixed compensation is approved by the Annual General Meeting an additional amount if the compensation previously approved is insufficient for his or her compensation. For each compensation period, the additional amount may not exceed 30% of the most recently approved maximum amount of fixed compensation for Group Management.

Change-of-control clauses

The employment agreements for the members of Group Management do not include any change-of-control clauses. There are no systems in place for severance payments, and none were set up during the reporting period. The notice period for members of Group Management is four to six months. They remain entitled to salaries and bonuses during this notice period.

Remuneration paid to former members of Group Management and the Board of Directors

Michiel de Ruiter, Managing Director Baby Care, left the company as a member of Group Management effective 30 April 2015. There were no changes to the Board of Directors in 2015. The following remuneration was paid:

Remuneration paid to Group Management	Group Management Total
In CHF (gross)	2015
Basic salary	89,733
Variable pro-rata remuneration for 2015 (paid in 2016)	166,660
Social contributions	30,413
Other benefits	1,600
Total	**288,406**

Shareholdings

As at 31 December, the individual members of the Board of Directors and Group Management (including related persons) held the following number of shares in the company:

Board of Directors		2015	2014
Josef Leu	Chairman, AC, PCC	1,290	1,290
Anton von Weissenfluh	Vice Chairman, PCC, MSC	1,203	1,000
Meike Bütikofer	MSC	441	441
Walter Locher	AC	1,200	1,200
Urs Renggli	AC	5,628	4,654
Niklaus Sauter	PCC	114	114
Holger Karl-Herbert Till	MSC	150	0
Total		**10,026**	**8,699**

AC = Audit Committee; PCC = Personnel and Compensation Committee; MSC = Market and Strategy Committee

Group Management		2015	2014
Thomas Eisenring	CEO	600	400
Marcel Gavillet	CFO	1,300	700
Karl Gschwend	Managing Director Strategic Projects	114	114
Werner Schweizer	Managing Director Dairy Ingredients	165	165
Michel Burla	Managing Director Cereals & Ingredients	300	200
Folkert Togtema	Managing Director Baby Care, starting 1 May 2015	32	n.a.
Christoph Peternell	COO, starting 1 June 2015	200	n.a.
Frank Hoogland	Managing Director Global Marketing and Sales, starting 14 September 2015	0	n.a.
Michiel de Ruiter	Managing Director Baby Care, until 30 April 2015	n.a.	1'576
Total		**2,711**	**3,155**

Additional fees and remuneration

No additional fees or remuneration were paid to the Board of Directors or Group Management, including related persons, during the reporting period or the previous year.

Loans/collateral granted to the Board of Directors and Group Management

Loans are never granted to members of the Board of Directors, the CEO, Group Management, or employees of the HOCHDORF Group. No collateral (loan guarantees, other guarantees, etc.) was granted during the reporting period. Neither HOCHDORF Holding Ltd nor other Group companies have waived a claim in respect of a member of the Board of Directors or Group Management.

Loans/collateral to related persons

As was the case in the previous year, no loans or collateral were granted to related persons during the reporting period. No loans or collateral existed as at the end of the reporting period.

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To the General Meeting of

HOCHDORF Holding Ltd, Hochdorf

Lucerne, 17 March 2015

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of HOCHDORF Holding Ltd for the year ended 31 December 2015.The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 52 to 57 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2015 of HOCHDORF Holding Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young AG

B. Koch R. Ottiger

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

Annual financial statement

Consolidated balance sheet as of 31 December

		2015 CHF	in %	2014 CHF	in %
Assets					
Cash and cash equivalents	1)*	43,023,224	12.6%	46,379,658	14.0%
Accounts receivables	2)*	49,018,525	14.4%	59,621,492	18.0%
Accounts receivables from related parties	2)*	2,600,386	0.8%	2,344,321	0.7%
Other short-term receivables	2)*	4,121,259	1.2%	4,881,653	1.5%
Inventories	3)*	48,980,461	14.4%	47,887,966	14.5%
Accrued income	4)*	10,310,031	3.0%	5,999,115	1.8%
Current assets		**158,053,886**	**46.4%**	**167,114,205**	**50.5%**
Property, plant, equipment		72,410,794	21.3%	61,839,942	18.7%
Other fixed assets		97,303,519	28.6%	90,566,899	27.4%
Total fixed assets	5)*	**169,714,313**	**49.9%**	**152,406,842**	**46.0%**
Shareholdings	6)*	2,377,144	0.7%	2,042,364	0.6%
Financial assets	7)*	8,299,899	2.4%	7,997,313	2.4%
Intangible assets	8)*	1,950,404	0.6%	1,548,639	0.5%
Non-current assets		**182,341,760**	**53.6%**	**163,995,158**	**49.5%**
Total assets		**340,395,646**	**100.0%**	**331,109,363**	**100.0%**
Liabilities					
Trade payables	9)*	52,872,193	15.5%	66,991,999	20.2%
Short-term financial liabilities	10)*	1,925,206	0.6%	47,241,804	14.3%
Other short-term financial liabilities with related parties	11)*	1,500	0.0%	0	0.0%
other current liabilities	11)*	14,071,722	4.1%	6,074,606	1.8%
Short-term provisions	14)*	0	0.0%	532,716	0.2%
Accrued liabilities and deferred income	12)*	5,094,650	1.5%	10,216,821	3.1%
Current liabilities		**73,965,271**	**21.7%**	**131,057,946**	**39.6%**
Non-current financial liabilities	13)*	62,441,675	18.3%	45,967,197	13.9%
Provisions	14)*	11,200,278	3.3%	10,916,099	3.3%
Non-current liabilities		**73,641,952**	**21.6%**	**56,883,296**	**17.2%**
Share capital		14,347,600	4.2%	10,709,220	3.2%
Own shares		–3,814,455	–1.1%	–703,225	–0.2%
Capital reserves		101,490,092	29.8%	64,812,537	19.6%
Profit reserves		59,040,493	17.3%	45,160,184	13.6%
Minority interests		8,203,186	2.4%	7,050,881	2.1%
Result current year		13,521,507	4.0%	16,138,524	4.9%
Shareholders, equity		**192,788,423**	**56.6%**	**143,168,121**	**43.2%**
Total liabilities and equity		**340,395,646**	**100.0%**	**331,109,363**	**100.0%**

* Explanations in the notes

Consolidated income statement

	Note	2015 CHF	in %	2014 CHF	in %
		1.1.15–31.12.15		1.1.14–31.12.14	
Sales of products	15)*	550,655,207	101.0%	428,439,122	100.4%
Other revenue	16)*	552,899	0.1%	250,357	0.1%
Gross sales revenue		**551,208,106**	**101.1%**	**428,689,479**	**100.5%**
Reductions in revenue	17)*	–6,967,012	–1.3%	–8,085,916	–1.9%
Net sales revenue		**544,241,094**	**99.8%**	**420,603,563**	**98.6%**
Change in inventories of semi-finished and finished products		987,457	0.2%	6,153,608	1.4%
Production revenue		**545,228,552**	**100.0%**	**426,757,171**	**100.0%**
Cost of materials and goods		–415,088,478	–76.1%	–321,557,814	–75.3%
Gross operating profit		**130,140,074**	**23.9%**	**105,199,357**	**24.7%**
Personnel expenses	18)*	–46,227,008	–8.5%	–34,802,357	–8.2%
Other operating expenses	19)*	–53,458,291	–9.8%	–43,200,209	–10.1%
Total operating expenses		**–99,685,299**	**–18.3%**	**–78,002,566**	**–18.3%**
EBITDA		**30,454,775**	**5.6%**	**27,196,791**	**6.4%**
Depreciation on property, plant and equipment		–9,971,557	–1.8%	–6,781,620	–1.6%
Amortisation on intangible assets		–337,580	–0.1%	–399,654	–0.1%
EBIT		**20,145,638**	**3.7%**	**20,015,516**	**4.7%**
Income from associates and joint ventures	20)*	334,780	0.1%	0	0.0%
Financial results	20)*	–5,230,784	–1.0%	–253,001	–0.1%
Earnings before taxes (EBT)		**15,249,634**	**2.8%**	**19,762,516**	**4.6%**
Non-operating income	21)*	–39,845	–0.0%	–26,145	–0.0%
Extraordinary income	22)*	–72,407	–0.0%	–1,887,220	–0.4%
Profit before taxes		**15,137,382**	**2.8%**	**17,849,151**	**4.2%**
Income taxes	23)*	–2,113,154	–0.4%	–1,710,627	–0.4%
Net profit		**13,024,228**	**2.4%**	**16,138,524**	**3.8%**
Attributable to:					
Parent company shareholders		13,521,507	2.5%	16,138,524	3.8%
Minority interests		–497,278	–0.1%	0	0.0%
Net profit		**13,024,228**	**2.4%**	**16,138,524**	**3.8%**
Earnings per share (basic)	24)*	**11.73**		**17.45**	
Earnings per share (diluted)	24)*	**11.73**		**13.46**	

* Explanations in the notes

Consolidated cash flow statement

	2015 CHF	2014 CHF
	1.1.15–31.12.15	1.1.14–31.12.14
Net profit	13,024,228	16,138,523
Depreciation of property, plant and equipment and amortisation of intangible assets	10,309,136	7,181,274
Net interest expense	1,614,934	2,303,695
Other non-cash adjustments	–303,443	62,343
Change in short-term provisions	–474,139	0
Change in long-term provisions	983,570	–464,487
Accounting losses (profits) from sales of fixed assets	50,362	88,560
Income from associates and joint ventures	–334,780	0
Earned capital	**24,869,868**	**25,309,909**
As % of net sales revenue	4.57%	6.02%
Change in trade receivables	8,658,497	–4,619,332
Change in trade receivables from related parties	–472,908	580,244
Change in short-term receivables	512,121	–2,092,426
Change in inventories	–2,434,816	–6,061,922
Change in prepayments	–4,315,840	–3,864,423
Change in liabilities from deliveries and services	–11,022,126	3,398,297
Change in other short-term liabilities	8,115,991	3,016,450
Change in other short-term liabilities of related parties	1,500	0
Change in deferred income	–4,901,153	4,879,644
Change in net current assets	**–5,858,735**	**–4,763,469**
Cash flow from operating activities	**19,011,133**	**20,546,440**
As % of net sales revenue	3.49%	4.88%
Investments in fixed assets	–22,211,272	–16,952,189
Divestments of fixed assets	65,845	151,100
Investments in intangible assets	–761,912	–1,338,560
Divestments of intangible assets	0	375,097
Investments in/divestments of long-term financial assets	–58,391	381,009
Net cash flow from the purchase (-)/sale (+) of investments	0	–15,096,445
Interest and dividends received	218,807	30,608
Cash flow from investing activities	**–22,746,922**	**–32,449,380**
Free cash flow	**–3,735,789**	**–11,902,940**
As % of net sales revenue	–0.69%	–2.83%

Consolidated cash flow statement continued

	2015 CHF	2014 CHF
	1.1.15–31.12.15	1.1.14–31.12.14
Change in short-term financial liabilities	–5,269,155	40,666,431
Change in non-current financial liabilities	–31,382,797	–52,130,894
Additions/disposals of minority interests in capital and profit	2,310,047	–211,177
Capital increase incl. premium from the conversion of the convertible bond	44,320,371	4,876,524
Capital increase from authorised capital	0	17,166,283
Capital increase of subsidiaries due to currency effects	–27,192	0
Sale (purchase) own shares net cash flow	–2,985,676	–510,735
Interest paid	–1,833,741	–2,334,303
Dividend payments	–4,133,157	–2,872,310
Cash flow from financing activities	**998,700**	**4,649,819**
Currency translation	–619,345	–304,735
Net change in cash and cash equivalents	**–3,356,434**	**–7,557,857**
Cash and cash equivalents at 1 January	46,379,658	53,937,515
Cash and cash equivalents at 31 January	**43,023,224**	**46,379,658**

Consolidated statement of changes in equity

	Share capital	Own shares	Capital reserves	Retained earnings	Accumulated translation differences	Total excl. minority interests	Minority interests	Total incl. minority interests
	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Equity as at 31.12.2013	**9,000,000**	**–30,425**	**47,195,059**	**49,282,582**	**–1,884,268**	**103,562,948**	**211,178**	**103,774,126**
Change in the scope of consolidation				14,686		14,686	7,050,881	7,065,567
Acquisition of minority interests						0	–211,178	–211,178
Goodwill from acquisition of shares of subsidiaries				–3,087,596		–3,087,596		–3,087,596
Badwill from acquisition of shares of subsidiaries				1,084,497		1,084,497		1,084,497
Reclassification			1,826	–1,826		0		0
Allocation of capital contributions to free reserves			–2,880,000	2,880,000		0		0
Conversion of convertible bond	393,930		4,482,594			4,876,524		4,876,524
Capital increase	1,315,290		15,850,993			17,166,283		17,166,283
Acquisition of own shares		–6,719,344				–6,719,344		–6,719,344
Sale of own shares		6,046,544	162,065			6,208,609		6,208,609
Currency translation differences					–255,582	–255,582		–255,582
Dividends				–2,872,310		–2,872,310		–2,872,310
Net profit				16,138,523		16,138,523		16,138,523
Equity as at 31.12.14	**10,709,220**	**–703,225**	**64,812,537**	**63,438,557**	**–2,139,851**	**136,117,238**	**7,050,881**	**143,168,120**
Change in the scope of consolidation						0	4,869	4,869
Allocation of capital contributions to free reserves			–4,130,000	4,130,000		0		0
Conversion of convertible bond	3,638,380		40,681,991 [3]			44,320,371		44,320,371
Capital increase						0	2,305,178	2,305,178
Acquisition of own shares		–6,618,666				–6,618,666		–6,618,666
Sale of own shares		3,507,435	125,564			3,633,000		3,633,000
Currency translation differences					–2,270,028	–2,270,028	–660,464	–2,930,492
Dividends				–4,118,185		–4,118,185		–4,118,185
Net profit				13,521,507		13,521,507	–497,278	13,024,228
Equity as at 31.12.15	**14,347,600** [1]	**–3,814,455**	**101,490,092**	**76,971,878** [2]	**–4,409,878**	**184,585,237**	**8,203,186**	**192,788,423**

1) 1,434,760 registered shares at nominal CHF 10.00; each share corresponds to one vote; the maximum entry limit in the share register is 5% of the votes.

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

3) The total costs of the capital increase of TCHF 492 (stamp duty on newly issued securities) are included in the capital reserves.

Shareholders >3%	Share	Prior year	
ZMP Invest AG, Lucerne	10.50%	10.96%	78,886 shares without voting rights
Weiss family and Innovent Holding AG, Wollerau	5.21%	6.68%	3,019 shares without voting rights
Argos Investment Managers S.A., Geneva	3.90%	4.90%	
Maurer Group, Hunzenschwil	<3%	3.57%	

Contingent capital
The Group does not have any contingent capital.

Authorised capital
The Group has authorised capital in the nominal amount of CHF 3,184,710, corresponding to 318,471 registered shares at nominal CHF 10.

Explanatory notes to the consolidated financial statements 2015 of the HOCHDORF Group

Principles of consolidation

General information
The HOCHDORF Group prepares its accounts in compliance with all existing guidelines of Swiss GAAP FER (Swiss accounting and reporting recommendations) and the provisions of Swiss law. The consolidated annual accounts reflect the actual status of the Group's asset, financial and revenue position. The consolidated annual accounts are based on the principle of historical costs and are based on the annual accounts for the affiliated companies as of 31.12.15, prepared according to standard principles.

Consolidation principles

Consolidated companies/consolidation method
The consolidated annual accounts for the HOCHDORF Group comprise the annual accounts for the HOCHDORF Holding Ltd parent company as well as all subsidiaries in which there is a capital and vote-relevant majority. Investments with 20% to 50% of the voting rights are accounted for using the equity method.

The consolidated individual financial statements for the companies are adapted to the standard Group structure and evaluation regulations and entered in accordance with the full consolidation method. 100% of the assets and liabilities as well as expenses and revenues are included in the consolidated annual accounts and all intercompany transactions are eliminated. Significant interim profits within the Group are considered in this elimination. The share of the minority shareholders in the company's own share capital and of the results is shown separately in the Group balance sheet and income statement.

Capital consolidation
For capital consolidation, assets and liabilities on holdings are evaluated at the time of the takeover according to standard Group principles (purchase method). Any remaining surplus/shortfall (goodwill/badwill) of this revaluation is offset against equity. The consolidated cash flow accounting is generated on the basis of the consolidated balance sheet and income statement.

Translation of foreign currencies
The annual accounts of consolidated companies in foreign currencies are converted as follows: current assets, fixed assets and external capital at end-of-year exchange rates (period end exchange rate); equity at historical exchange rates. The income statement and the cash flow statement are converted at average annual rates. The conversion differences incurred are recognised in equity without affecting net income. The foreign currency items included in the individual financial statements of the consolidated companies are converted as follows: foreign currency transactions at the exchange rate of the transaction day (current exchange rate); at the end of the year, foreign currency balances are converted at the end-of-year exchange rate (period-end exchange rate) and affect net income. The resultant exchange differences are shown in the income statements.

	Income statements average exchange rates		Balance sheet end-of-year exchange rates	
	2015	2014	31.12.2015	31.12.2014
1 EUR	1.0701	1.2127	1.0874	1.2024
1 USD	0.9664	0.9159	1.0010	0.9936
1 LTL	0.3099	0.3512	0.3149	0.3482
1 UYU	0.0356	n.a.	0.0346	n.a.
1 ZAR	0.0755	n.a.	0.0646	n.a.

Cash flow statement

Cash and cash equivalents form the basis for the presentation of the cash flow statement. Cash flow from operating activities is calculated using the indirect method.

Overview of Group companies and associated companies

Consolidated companies	Location	Function	Currency	Capital in thousand 31.12.2015	Capital share 31.12.15	Capital share 31.12.2014
HOCHDORF Holding Ltd [1)]	Hochdorf CH	Holding	CHF	14,348	100.%	100%
HOCHDORF Swiss Nutrition Ltd	Hochdorf CH	Production	CHF	30,000	100%	100%
HOCHDORF Swiss Milk Ltd [2)]	Hochdorf CH	Trade	CHF	n.a.	n.a.	100%
HOCHDORF Nutrifood Ltd [2)]	Hochdorf CH	Trade	CHF	n.a.	n.a.	100%
HOCHDORF Nutricare Ltd	Hochdorf CH	Trade	CHF	1,200	100%	100%
HOCHDORF Baltic Milk UAB [3)]	Medeikiai LT	Production and trade	EUR	5,792	100%	100%
HOCHDORF Swiss Whey Ltd	Hochdorf CH	Shell company	CHF	100	100%	100%
Schweiz. Milch-Gesellschaft AG	Hochdorf CH	Shell company	CHF	100	100%	100%
HOCHDORF Deutschland GmbH [4)]	Siegburg DE	Trade	EUR	200	100%	100%
Marbacher Ölmühle GmbH [5)]	Marbach DE	Production and trade	EUR	2,000	100%	100%
Uckermärker Milch GmbH [6)]	Prenzlau DE	Production	EUR	10,000	60%	60%
HOCHDORF Americas Ltd [7)]	Montevideo UY	Trade	UYU	72	60%	n.a.
HOCHDORF South Africa Ltd [8)]	Cape Town SA	Production	ZAR	500	90%	n.a.

1) Capital increase from conversion of convertible bond for CHF 44,840,000 corresponding to 363,838 new shares at nominal CHF 10 = CHF 3,638,380.
Bonds with a nominal value of CHF 280,000 were not converted and were repaid in full on 28.12.2015.

2) Merged into HOCHDORF Swiss Nutrition Ltd as at 01.01.15.

3) As at 1.1.2015 conversion of currency from Litas to EUR at fixed conversion rate of 1 EUR = 3,4528 LTL.

4) Company is in liquidation.

5) Capital increase as at 07.05.2015 to EUR 2 million.

6) Capital increase as at 25.03.2015 and 21.10.2015 to total EUR 10 million.

7) Formation on 02.03.15.

8) Formation on 18.05.15.

Associated companies	Location	Function	Currency	Capital in thousand 31.12.2015	Capital share 31.12.15	Capital share 31.12.2014
Ostmilch Handels GmbH	Bad Homburg DE	Trade	EUR	1,000	26%	26%
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel DE	Logistics	EUR	51	26%	26%
Ostmilch Frischdienst Magdeburg GmbH [9)]	Meitzendorf DE	Trade	EUR	25	26%	26%

9) Change of legal form from KG to GmbH with simultaneous name change and capital adjustment

Valuation methods

General information
Accounting takes place on the assumption that the company will continue as a going concern. Assets are measured at cost, taking into account the necessary value adjustments. Liabilities are recognised at nominal value. All identifiable loss risks and depreciations are offset by value adjustments or deferrals. Expense and income items are accrued by period.

Cash and cash equivalents
Cash and cash equivalents include cash, balances in postal giro and bank accounts. They are valued at their nominal value.

Securities without participation features
Standard commercial securities are measured at the market value on the balance sheet date. The remaining securities are balanced at acquisition value or at a lower market value.

Accounts receivable
Receivables are measured at nominal value less value adjustments. Identifiable individual risks are taken into account with appropriate value adjustments.

Inventories
The valuation of raw materials, operational materials and auxiliary materials is defined by the acquisition price or at a lower market value. The semi-finished and finished products are valued at manufacturing cost, including the direct material and production costs per item, as well as material and production overhead costs. Appropriate value adjustments are undertaken for goods with a low rate of inventory turnover.

The value adjustment rates applied for raw materials, auxiliary materials and operational materials are:

Inventory turnover rate	Value adjustment
Under 0.5 times	25.0% of the purchase or manufacturing costs
0.5 – 1 time	12.5% of the purchase or manufacturing costs
over 1 – 1,5 times	5.0% of the purchase or manufacturing costs
over 1.5 – 3 times	2.5% of the purchase or manufacturing costs
over 3 times	0% of the purchase or manufacturing costs

There are no calculated value adjustments if additional acquisitions of the same raw material are made in the reporting period.

Semi-finished and finished products:

Inventory turnover rate	Value adjustment
Under 0.5 times	100% of the purchase or manufacturing costs
0.5 – 1 time	50% of the purchase or manufacturing costs
over 1 – 1,5 times	20% of the purchase or manufacturing costs
over 1.5 – 3 times	10% of the purchase or manufacturing costs
over 3 times	0% of the purchase or manufacturing costs

The value adjustments calculated in this way are adjusted accordingly for normal saleability or longer shelf life. Apart from this, inventories whose realisable disposal value is lower than the acquisition or production cost (SPC) should be adjusted in value according to the «lower of cost or market» principle. The current market price on the sales market is assumed when defining the realisable disposal value. The typical sales deductions, sales expenses and any administrative expenses still to be incurred have to be deducted from this.

Consumption is measured in accordance with the first-expiry-date-first-out principle.

Interim profits on internal Group inventories are eliminated, if significant.

Discounts (in the sense of markdowns) granted by suppliers are entered as acquisition price reductions.

Accruals and deferrals
Accruals and deferrals are recognised at their nominal value.

Impairment of assets
A check is made on each balance sheet date to see if assets are impaired in value. The check is based on events and indicators that show that an overvaluation of the book value seems possible. A loss from value impairment is posted with an effect on net income if the book value of an asset exceeds the recoverable amount. A recoverable amount is the higher of the net market value and the utility value.

Tangible assets
Tangible assets are measured at the acquisition cost less the economically necessary depreciation. Long-term depreciation is taken into account. Depreciation is calculated on a straight line basis over the useful life of the fixed asset. All acquisitions over a value of CHF 5,000 are deemed investments. Projects in progress are capitalised as current investment projects and are not depreciated. Interests on assets under construction are not capitalised.

Asset group	Service life
Property, plant	15-65 years
Devices, equipment	5-25 years
Machines, appliances	5-25 years
IT systems, communication	5-10 years
Vehicles	5-10 years
Intangible assets	5-10 years

Leasing
Assets from financing leasing are capitalised and the relevant leasing liabilities are posted as a liability. With amortisations, the interest is charged directly to financial expenditure. Expenses for operating leasing are charged directly to the income statement.

Financial assets
Financial assets include long-term held securities, deferred tax assets as well as assets from pension funds and employer contribution reserves and long-term receivables from third parties. The securities are valued at acquisition prices, less operationally necessary value adjustments.

Intangible assets
Intangible assets include software, patents and licences. These are balanced at acquisition cost or at a lower utility value. They are depreciated beyond their economic service life on a straight line basis.

Short-term/long-term external capital
Valuation of liabilities is at the nominal amount. Short-term external capital includes liabilities with due dates of less than 12 months and short-term accrual items. Long-term liabilities include financing with a runtime of more than a year.

Provisions
A provision is a probable obligation based on an event before the balance sheet date, the amount of which and/or due date is uncertain, but can be estimated. This obligation warrants a liability. These are calculated according to standard and consistent operating criteria.

Taxes
The revenue taxes payable on taxable profits for the individual companies are accrued. Likewise, the incurred capital taxes are accrued.

Valuation of deferred taxes occurs in line with the tax rates that are actually expected in meeting future tax liability or in the realisation of future receivables (liability method). There are no negative valuation differences that could lead to tax assets. Clearable tax credits from carried forward losses are capitalised if it is likely that they might be realised in the future by sufficient taxable profits. Capital taxes are posted under operating expenses.

Financial derivative instruments
HOCHDORF Group uses derivative financial instruments to hedge its currency and interest rate risks. They are recorded in the balance sheet if they fulfil the definition of an asset or liability. The tools are explained in the notes.

Employee pensions
HOCHDORF Holding Ltd's pension liabilities and those of its subsidiaries in Switzerland are set out in the completely autonomous HOCHDORF Group pension fund. The pension scheme includes a defined contribution in accordance with Swiss GAAP FER 16. The costs resulting from the employee pension are charged to the income statement for the appropriate period. The actual economic effects of pension plans on the company are calculated on the balance sheet date. An economic benefit is carried as an asset if it is used for the company's future pension expenses. A financial obligation is shown as a liability if the requirements for the creation of a provision are met.

Employees and former employees receive different employee pension payments or old-age pensions corresponding to the legal requirements applicable in the countries where they are paid out.

Net turnover and income realisation
Net sales revenue includes the invoiced goods sales to third parties. Revenues are deemed to have been realised on delivery or provision of the service.

Research and development
Research and development costs are charged in full to the income statement. These costs are included in the items «Personnel expenses» and «Remaining operating costs».

Contingent liabilities
Contingent liabilities are valued on the balance sheet date. A provision is formed if a cash outflow is likely without a useful cash inflow.

Transactions with related parties
Business relationships with related parties are conducted at arm's length. Related parties (natural or legal) are defined as any party directly or indirectly able to exercise significant influence over financial or operating decisions of the organisation. Organisations that are controlled directly or indirectly by related parties are also considered to be related.

Notes to the consolidated financial statement

The individual balance sheet positions are comparable with the prior year. Changes in scope of consolidation due to the foundation of HOCHDORF South Africa Ltd and HOCHDORF Americas Ltd are immaterial.

1. Cash and cash equivalents

The valuation of cash and cash equivalents is at nominal value and comprises the following:

CHF 1,000	2015	2014
Cash	7	14
Post account	8,477	300
Bank account	34,362	45,743
Short-term investments	177	323
Total	**43,023**	**46,380**

2. Accounts receivable

CHF 1,000	2015	2014
Trade receivables from third parties	49,213	59,803
./. provision for doubtful accounts	–194	–182
Short-term receivables from related parties	2,600	2,344
Other receivables	4,121	4,882
Total	**55,740**	**66,847**

Diversification means there is no concentration of credit risk with regard to receivables from deliveries and services. The other receivables mainly result from credit from welfare institutions and from government bodies (VAT, Directorate General of Customs).

3. Inventories

CHF 1,000	2015	2014
Raw materials, packaging materials, operating materials	10,244	9,048
Finished and semi-finished products, trade goods	38,223	38,150
Heating oil	513	690
Total	**48,980**	**47,888**

4. Accrued income

CHF 1,000	2015	2014
As at 31 December	**10,310**	**5,999**

The prepayments and accrued income are comprised of revenues not yet received as well as costs paid in advance. The increase compared to the prior year primarily results from the still outstanding «Schoggi Law» payments, which were also higher year on year due to larger price differences in the market.

5. Fixed assets

CHF 1,000	Property, plant 1)	Equipment, warehouse equipment, fixed equipment	Machines, production appliances, furnishings	Office equipment, IT systems, communication, fittings	Vehicles	Current investment projects 2)	Total
Net accounting value as at 01.01.14	**33,644**	**22,936**	**41,301**	**6,432**	**1,251**	**1,450**	**107,014**
Purchase value							
As at 01.01.14	**89,108**	**42,399**	**103,268**	**17,835**	**2,129**	**1,450**	**256,189**
Change in scope of consolidation 4)	48,984	8,835	24,453	382	312	222	83,188
Additions	0	0	0	0	0	17,076	17,076
Disposals	0	–41	–100	–2,385	–376	0	–2,902
Reclassification 3)	590	1,966	1,545	831	419	–4,863	488
Currency translation difference	–40	–40	–78	–1	–17	–1	–177
As at 31.12.14	**138,642**	**53,119**	**129,088**	**16,662**	**2,467**	**13,884**	**353,862**
Accumulated depreciation							
As at 01.01.14	**55,464**	**19,463**	**61,967**	**11,403**	**878**	**0**	**149,175**
Change in scope of consolidation 4)	20,133	6,886	20,492	101	114	0	47,726
Disposals	0	–36	–100	–1,821	–216	0	–2,173
Depreciation	1,212	1,732	2,429	1,115	293	0	6,781
Currency translation difference	–7	–14	–25	–1	–7	0	–54
As at 31.12.14	**76,802**	**28,031**	**84,763**	**10,797**	**1,062**	**0**	**201,455**
Net accounting value as at 31.12.14	**61,840**	**25,088**	**44,325**	**5,865**	**1,405**	**13,884**	**152,407**
Net accounting value as at 01.01.15	**61,840**	**25,088**	**44,325**	**5,865**	**1,405**	**13,884**	**152,407**
Purchase value							
As at 01.01.15	**138,642**	**53,119**	**129,088**	**16,662**	**2,467**	**13,884**	**353,862**
Additions	0	0	259	0	31	31,091	31,381
Disposals	0	–38	–292	–27	–130	0	–487
Reclassification 3)	15,596	4,652	15,117	1,334	180	–36,879	0
Currency translation difference	–4,881	–1,035	–2,727	–40	–122	20	–8,786
As at 31.12.15	**149,357**	**56,698**	**141,445**	**17,929**	**2,426**	**8,115**	**375,970**
Accumulated depreciation							
As at 01.01.15	**76,802**	**28,031**	**84,763**	**10,797**	**1,062**	**0**	**201,455**
Disposals	0	–19	–286	–9	–56	0	–370
Depreciation	2,093	2,271	4,108	1,192	308	0	9,972
Currency translation difference	–1,949	–720	–2,074	–12	–46	0	–4,801
As at 31.12.15	**76,946**	**29,563**	**86,511**	**11,968**	**1,268**	**0**	**206,256**
Net accounting value as at 31.12.15	**72,411**	**27,135**	**54,934**	**5,961**	**1,158**	**8,115**	**169,714**

1) The Group has free parcels of land at its disposal in Lithuania. The value is equivalent to TCHF 157.

2) The current investment projects are plants under construction.

3) New acquisitions are posted with project numbers under «current investment projects» as inward movements. After the start of operations, there is a transfer posting from the «current investment projects» account to the appropriate fixed asset account. A decision is taken about which purchase costs are capitalised or posted via the income statement.

4) In connection with the purchase of the holdings Marbacher Ölmühle GmbH and Uckermärker Milch GmbH.

Of which assets subject to financial leasing

CHF 1,000	Total	Outstanding instalments
Net accounting value as at 01.01.15	**523**	**475**
Purchase value		
As at 01.01.15	**601**	**475**
Additions	9,353	9,353
Disposals of instalments	0	–866
Currency translation difference	–54	–44
As at 31.12.15	**9,900**	**8,918**
Accumulated depreciation		
As at 01.01.15	**78**	**0**
Depreciation	279	0
Currency translation difference	–5	0
As at 31.12.15	**352**	**0**
Net accounting value as at 31.12.15	**9,548**	**8,918**

6. Associated companies

Associated companies	Location	Function	Currency	Capital in thousand 31.12.2015	shareholdings 31.12.2015 CHF 1,000	Capital share 31.12.2014 CHF 1,000
Ostmilch Handels GmbH	Bad Homburg DE	Trade	EUR	1,000	2,291	2,018
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel DE	Logistics	EUR	51	38	16
Ostmilch Frischdienst Magdeburg GmbH	Meitzendorf DE	Trade	EUR	25	48	8
					2,377	2,042

7. Financial assets

CHF 1,000	2015	2014
Securities	30	30
Deferred tax assets	544	411
Assets from employer contribution reserves	7,726	7,556
Total	**8,300**	**7,997**

The deferred tax assets result from existing carried forward losses in the tax balance sheet.

Taxable losses carried forward after expiration

CHF 1,000	2015	2014
2019	0	27
2020	0	115
2021	0	42
2022 and later	1,420	0
Total	**1,420**	**184**

The carried forward losses shown for HOCHDORF Deutschland GmbH of TCHF 184 are no longer offsettable, as the company is in liquidation and no more income will be generated.

Pension plans

CHF 1,000 employer contribution reserve	Nominal value 31.12.2015	Renounced use 31.12.2015	Balance sheet 31.12.15	Formation/usage per 2015	Balance sheet 31.12.2014	Result of the committee of works and staff councils in personnel expenses 2015	 2014
HGR pension fund	7,726	0	7,726	170	7,556	0	0

The posting of interest from employer contribution reserves by the pension facility appears as a credit in the financial revenues. Interest of 2.25% was calculated on the employer contribution reserves in 2015 (previous year 2.25%).

CHF 1,000 Economic benefit/economic liability and pension expenditure	Credit/debit balance 31.12.2015	Economic share of the organisation 31.12.2015	 31.12.2014	Change compared to prior year	Amounts accrued for the period	Pension expenditure in personnel expenses 2015	 2014
HGR pension fund	12,374	0	0	0	305	1,771	1,644

8. Intangible assets [1)]

CHF 1,000	Software	Total
Net accounting value as at 01.01.14	**732**	**732**
Purchase value		
As at 01.01.14	**5,585**	**5,585**
Change in the scope of consolidation	501	501
Additions	1,338	1,338
Disposals	–5,497	–5,497
As at 31.12.14	**1,927**	**1,927**
Accumulated depreciation		
As at 01.01.14	**4,853**	**4,853**
Change in the scope of consolidation	248	248
Disposals	–5,122	–5,122
Depreciation	400	400
As at 31.12.14	**378**	**378**
Net accounting value as at 31.12.14	**1,549**	**1,549**
Net accounting value as at 01.01.15	**1,549**	**1,549**
Purchase value		
As at 01.01.15	**1,927**	**1,927**
Additions	761	761
Currency translation difference	–45	–45
As at 31.12.15	**2,643**	**2,643**
Accumulated depreciation		
As at 01.01.15	**378**	**378**
Depreciation	337	337
Currency translation difference	–23	–23
As at 31.12.15	**692**	**692**
Net accounting value as at 31.12.15	**1,951**	**1,951**

1) Intangible assets only cover acquired assets. Own brand names and licenses are not evaluated and not balanced on the balance sheet date.

9. Trade payables

CHF 1,000	2015	2014
To third parties	51,466	66,712
To related parties [1)]	1,406	280
Total	**52,872**	**66,992**

1) Related parties included associated companies and other related parties.

10. Short-term financial liabilities

CHF 1,000	2015	2014
Other financial liabilities	24	52
Leasing liabilities	1,901	99
Bank loans [1)]	0	47,091
Total	**1,925**	**47,242**

1) Thereof reclassification of syndicated loan in 2014 over CHF 40 million, with a due date of 30.09.2015, is shown on the balance sheet under short-term financial liabilities. The syndicated loans was renewed in 2015 with a duration of 5 years and an option to extend it by 2 years.

11. Other current liabilities

CHF 1,000	2015	2014
Other current liabilities	8,998	2,637
Employee overtime	219	234
Employee holiday credits	493	501
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc.)	3,685	2,516
Government bodies (taxes, source taxes)	678	187
Total	**14,073**	**6,075**

The other short-term liabilities include the «Schoggi Law» fund in particular. This fund is augmented from charges raised per litre of milk delivered. The funds are used to compensate for any gaps in the «Schoggi Law» credit from the state. It is calculated annually. Money that is not used is reimbursed to the milk suppliers.

12. Accrued liabilities and deffered income

CHF 1,000	2015	2014
As at 31 December	**5,095**	**10,217**

The deferred income essentially includes accruals in the context of reimbursements and commissions («Schoggi Law») as well as invoices not yet received for goods receipts and other supplier services (power, water, transport) as well as the accrual of interest from the convertible bond. Compared to the prior year, fewer accruals and deferrals had to be recognised, particularly in the case of the «Schoggi Law», due to partial payments.

13. Non-current financial liabilities

CHF 1,000	2015	2014
Mortgages, loans [1]	425	471
Leasing liabilities	7,017	376
Bank loans	55,000	0
Convertible bond 3% from 30.05.2011 to 30.05.2016 [2]	0	45,120
Total	**62,442**	**45,967**

1) Loan commitment to a former shareholder of Marbacher Ölmühle GmbH.

2) Convertible bond with a nominal value of CHF 50 million; from 30.05.2011 – 30.05.2016; 3% interest rate for the whole duration; Conversion price CHF 123.10; Securities number 12,931,421; ISIN CH0129314214; the bond was terminated prematurely with effect from 28.12.2015. The bond was converted in full up to CHF 280,000, all of which was repaid on 28.12.2015.

Terms and interest rates (long-term and short-term financial liabilities)

Position	Carrying amount (CHF 1,000)	Due date	Interest rate
Syndicated loan	55,000	30.06.2020	from 0.60% to 2.50%
Geiger loan	425	>2019	from 2.02% to 3.83%
Short-term leasing	1,901	2016	from 1.85% to 5.34%
Long-term leasing	7,017	2018/2020	from 1.85% to 5.34%
Other current liabilities	24	2016	from 6.39% to 7.97%
Total	**64,367**		

The financial liabilities are recorded at nominal value and valued.

14. Provisions

CHF 1,000 Development of provisions	Short-term provisions	Damages claims	Deferred tax provisions	Total
As at 31.12.13	**0**	**600**	**4,375**	**4,975**
Change of scope of consolidation [1]	533	1,204	5,201	6,938
Provisions made (with effect on net income)	0	2,273	923	3,196
Provisions used	0	–2,423	0	–2,423
Provision released	0	–450	–773	–1,223
Currency translation differences	0	0	–14	–14
As at 31.12.14	**533**	**1,204**	**9,712**	**11,449**
Provisions made (with effect on net income)	0	61	1,953	2,014
Provisions used	–533	–839	0	–1,372
Provision released	0	–190	–2	–192
Currency translation differences	0	–131	–568	–699
As at 31.12.15	**0**	**105**	**11,095**	**11,200**

1) Addition of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH holdings.

In 2015, particularly the damage claim provisions made by Uckermärker Milch GmbH in 2014 for impending losses on sales of goods were used by realising sales in 2015.

Notes to the consolidated income statement

The following explanatory remarks are given to supplement the income statement, structured in accordance with the overall cost procedure (production income statement).

The increase in the individual income statement positions mainly results from the first-time inclusion of the figures of Marbacher Ölmühle GmbH and Uckermärker Milch GmbH, which were consolidated in the balance sheet as at 31.12.2014. Therefore, comparability with the prior year is only possible to a limited extent.

15. Sales of products

By product groups

CHF 1,000	2015		2014	
Milk products/cream	225,290	40.91%	90,012	21.00%
Milk powder	190,062	34.52%	211,334	49.33%
Infant formula	110,217	20.01%	109,846	25.64%
Specialities/wheat germ	12,061	2.19%	5,565	1.30%
Bakery-/confectionary goods	6,260	1.14%	6,962	1.63%
Remaining products/services	6,765	1.23%	4,720	1.10%
Total	**550,655**	**100.00%**	**428,439**	**100.00%**

By region

CHF 1,000	2015		2014	
Switzerland/Liechtenstein	210,302	38.19%	245,674	57.34%
Europe	243,255	44.18%	87,170	20.35%
Asia	23,611	4.29%	27,001	6.30%
Middle East/Africa	62,438	11.34%	61,628	14.38%
USA/Canada	0	0.00%	1	0.00%
Americas (others)	1,560	0.28%	709	0.17%
Rest	9,489	1.72%	6,256	1.46%
Total	**550,655**	**100.00%**	**428,439**	**100.00%**

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

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 providers (milk producers) are limited to the individual milk producer organisations. On the processing side, the market is shaped by four large dairies, along with cheesemakers. On the customer side, the chocolate industry segment is predominant, likewise with just a few large processors. In the area of infant formula (based on milk), only one other firm produces infant formula for the Swiss and international market, apart from the HOCHDORF Group.

16. Other revenue

CHF 1,000	2015	2014
Various remaining revenue	553	250
Total	**553**	**250**

Larger items in the various remaining revenues include employee private shares for the use of vehicles and office and production space rental.

17. Reductions in revenue

CHF 1,000	2015	2014
Discounts, provision for doubtful accounts, accounts receivable losses [1]	–294	–108
Reimbursements («Schoggi Law»), rebates	–6,719	–7,841
Various reductions in proceeds [2]	46	–137
Total	**–6,967**	**–8,086**

1) There were no significant losses from accounts receivables in the current year.

2) Various reductions in proceeds include individual damage claims from deliveries and services. The balance is shown net since cancellations of the provisions made in previous years also occur via the damages claims account.

18. Personnel expenses

CHF 1,000	2015	2014
Wages	–37,561	–28,897
Social contributions	–5,845	–4,372
Incidental wage costs incl. temporary staff	–2,821	–1,533
Total	**–46,227**	**–34,802**

19. Other operating costs

CHF 1,000	2015	2014
Facilities expenditure (incl. warehouse rents)	–4,754	–3,326
Maintenance, repairs	–7,895	–6,164
Vehicle and transport costs	–7,226	–7,801
Insurance, fees, duties	–1,308	–1,121
Energy and disposal expenditure	–18,066	–13,722
Administration and IT expenditure	–4,722	–3,127
Advertising expenses incl. commissions to customers	–4,687	–4,161
Various other operating costs	–4,800	–3,778
Total	**–53,458**	**–43,200**

20. Financial result

CHF 1,000	2015	2014
Interests from cash and cash equivalents	1	17
Revenues from holdings and financial assets incl. associated parties	723	2,169
Value adjustment from financial assets	19	11
Total financial revenue	**743**	**2,197**
Interest costs	–1,834	–2,334
Deposit fees, bond fees	–29	–51
Exchange rate losses	–3,776	–65
Total financial expenditure	**–5,639**	**–2,450**
Total	**–4,896**	**–253**

In 2014, income from financial assets includes profit from the assumption of debt amounting to CHF 1.99 million.

21. Non-operating income

CHF 1,000	2015	2014
Revenue from external properties	–40	–26
Total	**–40**	**–26**

The external properties refer to a building lease at Rothenburg fuel depot as well as an owner's association parking level at Hochdorf station.

22. Extraordinary income

CHF 1,000	2015	2014
Profit from the disposal of operational fixed assets	–6	–68
Exceptional expenditure	–66	–1,819
Total	**–72**	**–1,887**

Exceptional expenditure 2014 includes the net payment from a lost claim with a customer from China.

23. Taxes

CHF 1,000	2015	2014
Current income taxes		
Taxes on operating result	–679	–942
Deferred income taxes		
Net change in deferred tax assets and liabilities	–1,434	–769
Total	**–2,113**	**–1,711**

Valuation of deferred taxes occurs in line with the tax rates that are actually expected in meeting future tax liability or in the realisation of future receivables (liability method). The tax rate is 12% for companies exclusively based in the canton of Lucerne; it is 15% for HOCHDORF Swiss Nutrition Ltd, with its production in the Thurgau canton. 15% was applied for the subsidiary in Lithuania and 25% for the subsidiaries in Germany, Uruguay and South Africa.

The weighted average tax rate relates to the Group's earnings before taxes (EBT) and amounts to 13.96% (previous year: 9.58%). Including the positive tax effect of CHF 756,000 in 2014 due to the offset of unrecognised loss carry forwards, this gives a weighted average Group tax rate of 13.82% for 2014.

Capital taxes are posted separately in operating costs. 2014 and years before have been definitively assessed for the Swiss Companies. The companies in Germany and Lithuania have been provisionally assessed.

24. Earnings per share

Company results per share, basic

	2015	2014
Weighted average shares outstanding	1,152,439	924,700
Company result before minority interests	13,521,507	16,138,523
Company earnings per share in CHF, basic	**11.73**	**17.45**

To determine the company result per share, the company results due to the HOCHDORF Group shareholders is divided by the average number of outstanding shares. Own shares held are not included in the calculation of the average outstanding shares. The weighted average number of shares is a result of 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.

Company earnings per share, diluted

	2015	2014
Weighted average shares outstanding, basic	1,152,439	924,700
Dilution effect of convertible bond [1]	0	364,459
Weighted average shares outstanding, basic	1,152,439	1,289,159
Company result before minority interests	13,521,507	16,138,523
Convertible bond interest 3% of CHF 45.12 million	0	1,353,600
12% tax effect (interest on convertible bond*0.12/1.12)	0	–145,029
Company result before minority interests, diluted	13,521,507	17,347,094
Company earnings per share in CHF, diluted	**11.73**	**13.46**

1) The dilution is calculated from the convertible bond of CHF 50 million and the original conversion price CHF 124.00, from which a maximum of 403,226 new shares are generated. As a result of the increase in the dividend in 2014 from CHF 3.00 to CHF 3.20, the exercise price of the convertible bond was reduced to CHF 123.80. As a result of the increase in the dividend in 2015, the exercise price was reduced to CHF 123.10. The convertible bond was terminated prematurely with effect from 28.12.2015. The bond was converted in full up to CHF 280,000. The balance was repaid in full on 28.12.2015.

25. Own shares

HOCHDORF Group pension fund

	2015 Number	2014 Number
Registered shares of HOCHDORF Holding Ltd	25,000	25,000
Total	**25,000**	**25,000**

Transactions with own shares

	2015	2014
Balance 1.1. in units	**5,143**	**307**
At the average price per share of CHF	136.75	96.68
Purchases in units	44,708	53,753
At the average price per share of CHF	148.04	125.00
Sales in units	–25,851	–48,917
At the average price per share of CHF	140.54	126.92
Balance 31.12. in units	**24,000**	**5,143**
At the average price per share of CHF	157.51	136.75

Further notes

Unsettled derivative financial instruments

Exchange rate instruments	Value changes	2015 assets value	2015 liabilities value	Purpose	Value change	2014 assets value	2014 liabilities value	Purpose
Interest rate swaps	31	0	0	Hedging	0	0	–31	Hedging
Forward exchange contracts	–120	0	–120	Hedging				
Total assets and liability values	**–89**	**0**	**–120**		**0**	**0**	**–31**	

Derivative financial instruments, which do not meet the definition of assets or liabilities, are not included in the balance sheet. As of the balance sheet date, forward exchange contracts existed, which in terms of due date all pertain to 2016.

Pledged assets

CHF 1,000	2015	2014
Property, plant/mortgage liens	0	5,338
Total	**0**	**5,338**

Leasing debts

CHF 1,000	2015	2014
Unrecognised leasing debts	54	154
Total	**54**	**154**

Liabilities from pension fund

CHF 1,000	2015	2014
HOCHDORF Group pension fund	305	280
Total	**305**	**280**

Goodwill offset against equity

Purchase costs

CHF 1,000	2015	2014
As at 1 January	3,088	0
Additions	0	3,088
As at 31 December	**3,088**	**3,088**

Accumulated depreciation

CHF 1,000	2015	2014
As at 1 January	–382	0
Additions	–617	–382
As at 31 December	**–999**	**–382**
Theoretical price as at 31 December	**2,089**	**2,706**

In the reporting year a goodwill of CHF 3,088,000 resulted from the various shareholding acquisitions. This is shown based on a linear amortisation over 5 years (pro rata).

The effects of a theoretical capitalisation on the income statement and balance sheet are shown in the following table.

CHF 1,000	2015	2014
Group result	13,024	16,139
Goodwill amortisations	–617	–382
Theoretical company results	**12,407**	**15,757**

CHF 1,000	2015	2014
Equity	192,788	143,168
Theoretical goodwill	2,089	2,706
Theoretical equity	**194,877**	**145,874**

Transactions with related persons and companies

The business transactions with related persons and companies are based on standard commercial contracts and conditions. All transactions are contained in the consolidated annual accounts 2015 and 2014. These cover deliveries of goods and raw materials as well as services to and from related companies.

Transactions with associated companies

CHF 1,000	2015	2014
Net sales	81,988	0
Cost of goods	–53,799	0
Service revenue	23	0
Service costs	–544	0
Financial revenue	5	0
Financial expenses	–33	0

transactions with related companies

CHF 1,000	2015	2014
Net sales	11,064	13,777
Cost of goods	–576	–594
Service revenue	32	23
Service costs [1]	–1,771	–1,644
Financial revenue	32	6
Financial expenses	–12	–3

1) Service costs include the employer contributions for employees, which are settled in the related HOCHDORF Group pension fund.

Contingent liabilities

There are no contingent liabilities.

Risk report

Risk management and risk policy

Enterprise automatically involves opportunities and threats. The HOCHDORF Group has been an increasingly successful company in Europe and worldwide for more than 120 years. Management and planning systems have to be improved on an ongoing basis to ensure competitiveness and future potential but also to identify and manage existing risks at an early stage. It was for this reason that we began looking at risk management in a systematic and structured way at the end of the 1990s. A professional risk management system was introduced in 2007.

We now have a specifically designated risk management centre reporting directly to the management team. The risk management area has the relevant practical skills and maintains all the organisational provisions, such as risk policy and risk strategy as well as all the process descriptions. For higher-level issues, risk committees can be deployed to bring their expertise and decision-making skills to resolve particular problems. Risk management provides important support in protecting and securing future potential. The general risk awareness of the management team and employees is increased by annual risk assessments. The risk assessment includes all business processes.

The reporting includes the following areas:

- Strategic risks (risk from development and the situation in society)
- Market risks (sales market risks)
- Financial market risks (investment and financing risks)
- Political/legal risks; organisation and management
- Service risks (risks from production and procurement as well as research and development)

Risk assessment

Our strategy is to generate sustainable profitable growth. The strategic risks are closely related to the main area of business; the milk market and milk as a raw material. Analysis has shown that the defined competence profile shows a healthy basis for gaining competitive advantages as well as internal strengths. This provides us with endless opportunities to meet strategic objectives and prepare ourselves for any challenges we may face in the foreseeable future. This positioning is underpinned by strategic partnerships. We defined alternative courses of action as part of our risk strategy and adopted targeted measures to identify risks.

In our markets for products with milk components, refinement into functional powders, children's food, products for bakeries and gentle pressed wheat germ, the main market risks emanate from «sales fluctuations» and «fluctuations in the cost of materials». The basis for our study included e.g. market trend analysis, identification of market appeal and the competitive environment. The main focus of the analysis was on sales and procurement markets.

The analysis of the financial outlook is based on comparative data from rating agencies. From a financial point of view, we can be described as a healthy group. As with other companies of a similar structure, we have to explicitly mention «value fluctuations in holdings», «investment risks» and «accounts receivable losses», as well as «currency fluctuations».

The analysis also reveals mixed results in terms of the political/legal and organisational risks facing the company. There are opportunities and threats arising from political change and from the political circumstances (CH, EU, WTO) and the opening up of the milk market. We are addressing the risks from product liability with quality assurance and organisational measures, as well as appropriate product liability insurance. Risks from contractual agreements are minimised by employing appropriate legal expertise.

We have a clear understanding of how to deal with the risks involved in providing goods and services and we monitor them appropriately by observing basic commercial principles. We produce regular reports on the risks caused by business interruption. Emergency plans are in place and are regularly updated. These include estimates of internal and external interactions, such as capacity distribution and supplier evaluations.

Overall risk status

The risks are evaluated quantitatively and statistical procedures show their interconnectivity. This enables us to derive equity share, liquidity and credit requirements and to compare these with existing funds and the actual substance of the company. Based on traditional rating analysis and on modern procedures for the 2016 planning year, the results are positive and compare favourably with the high credit level achieved by other similar companies.

Events after the balance sheet date

After the balance sheet date and until the adoption of the Group accounts by the Board of Directors, no significant events have occurred that could affect the informational value of the 2015 annual accounts or which must be disclosed here.

The consolidated annual accounts were approved in the form presented here by the Board of Directors at its meeting on 18 March 2016.

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To the General Meeting of
HOCHDORF Holding Ltd, Hochdorf

Lucerne, 18 March 2016

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of HOCHDORF Holding Ltd, which comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, statement of changes in equity and notes (pages 60 until 84), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law..

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors. We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young AG

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

HOCHDORF Holding Ltd

Balance sheet as of 31 December

	2015 CHF	in %	2014 CHF	in %
Assets				
Liquid assets and current assets with market price	20,450,155	9.4%	34,811,786	16.7%
Trade receivables				
– to shareholdings	469,063	0.2%	0	0.0%
Other current receivables				
– to third parties	1,997	0.0%	5,897	0.0%
Accrued income	0	0.0%	17910	0.0%
Current assets	**20,921,214**	**9.6%**	**34,835,592**	**16.7%**
Loans to holdings	115,089,304	53.0%	96,905,638	46.4%
Shareholdings	81,330,553	37.4%	76,077,357	36.4%
Intangible assets	0	0.0%	948,978	0.5%
Non-current assets	**196,419,856**	**90.4%**	**173,931,973**	**83.3%**
Total assets	**217,341,071**	**100.0%**	**208,767,566**	**100.0%**
Liabilities				
Current external capital				
Trade payables				
– to third parties	0	0.0%	469,722	0.2%
– to related parties	0	0.0%	24,563	0.0%
Current interest-bearing payables				
– to third parties	0	0.0%	40,045,116	19.2%
Other current payables				
– to third parties	738,560	0.3%	1,036,304	0.5%
– to related parties	1,500	0.0%	0	0.0%
Accrued liabilities and deferred income				
– to third parties	0	0.0%	986,600	0.5%
Non-current liabilities				
Long-term interest-bearing payables				
– to third parties	55,000,000	25.3%	45,120,000	21.6%
– to shareholdings	194,787	0.1%	198,464	0.1%
Total external capital	**55,934,847**	**25.7%**	**87,880,770**	**42.1%**
Share capital	14,347,600	6.6%	10,709,220	5.1%
Statutory capital reserves (capital investments)	78,276,670	36.0%	41,724,679	20.0%
General statutory retained earnings	10,172,000	4.7%	10,172,000	4.9%
Voluntary retained earnings	20,347,588	9.4%	20,347,588	9.7%
Balance sheet profit				
- profit carried forward	38,648,415	17.8%	33,286,455	15.9%
- profit for the period	3,394,107	1.6%	5,350,145	2.6%
Own shares	–3,780,157	–1.7%	–703,292	–0.3%
Total equity	**161,406,223**	**74.3%**	**120,886,796**	**57.9%**
Total liabilities and equity	**217,341,071**	**100.0%**	**208,767,566**	**100.0%**

HOCHDORF Holding Ltd

Income statement

	2015 CHF	in %	2014 CHF	in %
	1.1.15–31.12.15		1.1.14–31.12.14	
Service revenue	201,550	100.0%	5,865,525	99.8%
Other revenue	0	0.0%	8,889	0.2%
Gross earnings	**201,550**	**100.0%**	**5,874,414**	**100.0%**
Personnel costs	0	0.0%	–3,284,893	–55.9%
Other operating costs	–220,939	–109.6%	–1,868,819	–31.8%
Total operating costs	**–220,939**	**–109.6%**	**–5,153,712**	**–87.7%**
EBITDA	**–19,389**	**–9.6%**	**720,702**	**12.3%**
Depreciation of fixed assets	0	0.0%	–151,671	–2.6%
Depreciation of intangible assets	0	0.0%	–126,249	–2.1%
EBIT	**–19,389**	**–9.6%**	**442,781**	**7.5%**
Financial revenue	9,681,241	4803.4%	7,636,083	130.0%
Financial expenses	–6,267,745	–3109.8%	–2,437,106	–41.5%
Operating income before taxes	**3,394,107**	**1684.0%**	**5,641,758**	**96.0%**
Extraordinary income	0	0.0%	8,387	0.1%
Profit before taxes	**3,394,107**	**1684.0%**	**5,650,145**	**96.2%**
Direct taxes	0	0.0%	–300,000	–5.1%
Company result	**3,394,107**	**1684.0%**	**5,350,145**	**91.1%**

HOCHDORF Holding Ltd

Notes to the financial statements 2015

Details pursuant to Art. 959c et seqq. OR

1. Company, name, registered office
HOCHDORF Holding Ltd, Siedereistrasse 9, 6280 Hochdorf LU
The holding has not employed any personnel since 1.1.2015.

2. Principles

General information
These financial statements have been prepared in accordance with the provisions on commercial accounting from the Swiss Code of Obligations (articles 957-963 b CO, valid from 1 January 2013).

The additional requirements for large companies according to article 961 d para. 1 CO (additional information in the notes, cash flow statement and financial report) are waived, as a consolidated financial statement according to Swiss GAAP FER is being issued.

By way of the reorganisation of the Group on 01.01.15, all business activities were outsourced to HOCHDORF Swiss Nutrition Ltd. The holding therefore no longer has any tangible fixed assets or personnel. They have been fully integrated into HOCHDORF Swiss Nutrition Ltd.

Cash and cash equivalents
Cash and cash equivalents include cash, balances in postal giro and bank accounts. They are valued at their nominal value. Short-term securities are measured at the market price on the balance sheet date.

Accounts receivable
Receivables are measured at nominal value less value adjustments. Identifiable individual risks are taken into account with appropriate value adjustments.

Accruals and deferrals
Accrual and deferral items, measured at the nominal or effective value.

Securities and financial assets
Financial assets include loans to group companies. They are measured at their acquisition costs less possible value adjustments.

Own shares
Own shares are entered in the balance sheet as a deduction from equity at cost at the time of acquisition. At subsequent resale, the gain or loss is recorded in the income statement as a financial income or expense.

3. Information on balance sheet and income statement items

3.1. Shareoldings

	Purpose	Currency	Capital in 1,000 31.12.2015	Capital in 1,000 31.12.2014	Capital and voting share 31.12.2015	Capital and voting share 31.12.2014	
Schweiz. Milch-Gesellschaft AG, Hochdorf	Inactive	TCHF	100	100	100%	100%	
HOCHDORF Swiss Nutrition Ltd, Hochdorf	Production	TCHF	30,000	30,000	100%	100%	
HOCHDORF Swiss Milk Ltd, Hochdorf	Trade	TCHF	n.a.	1,000	n.a.	100%	1)
HOCHDORF Nutrifood Ltd, Hochdorf	Trade	TCHF	n.a.	100	n.a.	100%	1)
HOCHDORF Nutricare Ltd, Hochdorf	Trade	TCHF	1,200	1,200	100%	100%	
HOCHDORF Swiss Whey Ltd, Hochdorf	Inactive	TCHF	100	100	100%	100%	
HOCHDORF Baltic Milk UAB, LT-Medeikiai	Production	EUR/LTL	5,792	20,000	100%	100%	2)
HOCHDORF Deutschland GmbH in Liq., DE-Siegburg	Trade	EUR	200	200	100%	100%	3)
Marbacher Ölmühle GmbH, DE-Marbach	Production	EUR	2,000	100	100%	100%	4)
Uckermärker Milch GmbH, DE-Prenzlau	Production	EUR	10,000	4,650	60%	60%	5)
Ostmilch Handels GmbH, DE-Bad Homburg	Trade	EUR	1,000	1,000	26%	26%	
Ostmilch Handels GmbH Frischdienst Oberlausitz KG, DE-Schlegel	Logistics	EUR	51	51	26%	26%	
Ostmilch Frischdienst Magdeburg GmbH, DE-Meitzendorf	Trade	EUR	25	26	26%	26%	6)
HOCHDORF Americas Ltd, UY-Montevideo	Trade	UYU	72	n.a.	60%	n.a.	7)
HOCHDORF South Africa Ltd., SA-Cape Town	Production	ZAR	500	n.a.	90%	n.a.	8)

1) Merged into HOCHDORF Swiss Nutrition Ltd as at 1.1.2015.

2) As at 1.1.2015 conversion of currency from Litas to EUR at fixed conversion rate of 1 EUR = 3.4528 LTL.

3) Company is in liquidation.

4) Capital increase as at 07.05.2015 to EUR 2 million.

5) Capital increase as at 25.03.2015 and 21.10.2015 to total EUR 10 million.

6) Change of legal form from KG to GmbH with simultaneous name change and capital adjustment.

7) Formation on 02.03.15.

8) Formation on 18.05.15.

3.2. Current interest-bearing payables

CHF 1,000	31.12.2015	31.12.2014
Consortium loan	0	40,045
Total	**0**	**40,045**

3.3. Long-term interest-bearing payables

CHF 1,000	31.12.2015	31.12.2014
Consortium loan	55,000	0
Convertible bond	0	45,120
Loans of shareholdings	195	198
Total	**55,195**	**45,318**

Maturity structure

CHF 1,000	31.12.2015	31.12.2014
Up to 5 years	55,195	45,318
Total	**55,195**	**45,318**

3.4. Other operating costs

CHF 1,000	31.12.2015	31.12.2014
Occupancy	0	–235
Maintenance, repair, replacement	0	–401
Vehicle and transport	0	–22
Property insurance, fees	18	–434
Administration and IT	–30	–620
Marketing and sales	0	–87
Other operating costs	–1	–1
Bank charges, agency fees	–208	–69
Total	**–221**	**–1,869**

4. Bond issue

Type of bond	Convertible bond
Nominal amount	CHF 50 million
Securities number	12931421 / ISIN CH0129314214
Interest rate	3%
Duration	30 May 2011 to 30 May 2016
Conversion price	CHF 123.10
Repayment	Premature termination as at 28.12.2015
Outstanding as of 31.12.2015 nominal	**CHF 0**

5. Shareholders

>3%	31.12.2015	31.12.2014
ZMP Invest AG, Lucerne	10.50%	10.96%
of which 78,886 shares without voting rights		
Weiss family and Innovent Holding AG, Wollerau	5.21%	6.68%
of which 3,019 shares without voting rights		
Argos Investment Managers S.A., Geneva	3.90%	4.90%
Maurer Group, Hunzenschwil	<3%	3.57%

6. Liabilities to pension schemes

CHF	31.12.2015	31.12.2014
Pension fund	0	24,563

7. Release of hidden reserves

CHF	31.12.2015	31.12.2014
Release of hidden reserves (by way of the reorganisation on 1.1.2015 transferred to HOCHDORF Swiss Nutrition Ltd)	1,781,950	174,010

8. Transactions with own shares

Business year 2015			Business year 2014		
01.01.15 balance	5,143 shares	at price 136.75	01.01.14 balance	307 shares	at price 96.68
Purchases BY 2015	44,708 shares	at av. price 148.04	Purchases BY 2014	53,753 shares	at av. price 125.00
Sales BY 2015	25,851 shares	at av. price 140.54	Sales BY 2014	48,917 shares	at av. price 126.92
31.12.15 balance	24,000 shares	at price 157.51	31.12.14 balance	5,143 shares	at price 136.75

9. Contingent capital

As at 31.12.2015 HOCHDORF Holding Ltd did not have any contingent capital.

10. Authorised capital

As of 31.12.2015, HOCHDORF HOLDING Ltd had total authorised capital of CHF 3,184,710 nominally by issuing up to 318,471 registered shares to be paid with a nominal value of CHF 10 per share.

11. Shareholdings of the Board of Directors and the Group Management

As of 31 December, the members of the Board of Directors and the Group Management (including related persons) held the following number of shares in the company:

Board of Directors

	Number of shares 31.12.15	Number of shares 31.12.2014
Josef Leu, Chairman, Audit Committee, Personnel and Compensation Committee	1,290	1,290
Anton von Weissenfluh, Vice Chairman, Personnel and Compensation Committee, Market and Strategy Committee	1,203	1,000
Meike Bütikofer, Market and Strategy Committee	441	441
Walter Locher, Audit Committee	1,200	1,200
Urs Renggli, Audit Committee	5,628	4,654
Niklaus Sauter, Personnel and Compensation Committee	114	114
Holger Karl-Herbert Till, Market and Strategy Committee	150	0
Board of Directors Total	**10,026**	**8,699**

Group Management

Thomas Eisenring, CEO	600	400
Marcel Gavillet, CFO	1300	700
Karl Gschwend, Managing Director Strategic Projects	114	114
Werner Schweizer, Managing Director Dairy Ingredients	165	165
Michel Burla, Managing Director Cereals & Ingredients	300	200
Folkert Togtema, Managing Director Baby Care from 1.5.2015	32	n.a.
Christoph Peternell, COO, from 1.6.2015	200	n.a.
Frank Hoogland, Managing Director, Global Marketing and Sales from 14.9.2015	0	n.a.
Michiel de Ruiter, Managing Director Baby Care until 30.04.2015	n.a.	1,576
Group Management Total	**2,711**	**3,155**
Total of Board of Directors and Group Management	**12,737**	**11,854**
in %	0.89%	1.32%

In the reporting year, no shares were allotted to the Board of Directors or to Group Management. Acquisition is made directly on a private basis.

HOCHDORF Holding Ltd

Proposed appropriation of available earnings

	31.12.15 CHF	31.12.2014 CHF
Profit carried forward	38,636,600	33,278,766
Change correction on balance of own shares from the previous year [1]	3,922	7,690
Change in effective balance of shares from conversion of bond	7,893	0
Profit from current year	3,394,107	5,350,145
Total available to Annual General Meeting	**42,042,522**	**38,636,600**

Proposed appropriation of retained earnings

Balance carried forward	42,042,522	38,636,600
Total appropriation of profit	**42,042,522**	**38,636,600**

1) No dividend will be paid on the «own shares» portfolio

Proposal for the distribution of a dividend from capital investment reserves

Capital investment reserves	**37,594,679**	**21,391,092**
Capital investments from capital increase	0	15,850,993
Capital investments from conversion of convertible bond	40,681,991	4,482,594
Conversion of reserves from capital investments to free reserves [2]	–5,308,612	–4,130,000
Remaining reserves from capital investments	**72,968,058**	**37,594,679**
2) Dividend CHF 3.70 (previous year CHF 3.70) per nom. CHF 10 share capital from capital investment reserves. The effective dividend payment amount is calculated on the effective number of shares outstanding at the time of the dividend payment.	5,308,612	4,118,185

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To the General Meeting of

HOCHDORF Holding Ltd, Hochdorf

Lucerne, 18 March 2016

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of HOCHDORF Holding Ltd, which comprise the balance sheet, income statement and notes (pages 86 until 92), for the year ended 31 December 2015.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

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