# ANNUAL REPORT

# 2016

HOCHDORF
BEST PARTNER

Page references

Further information

Important data/fact

# Annual Report 2016

# Facts and figures

In 2016 the HOCHDORF Group worked on the implementation of strategy 2016 – 2020. Important elements of this include forward integration and the development and marketing of new high added-value products. With the majority holding in Pharmalys Laboratories SA, HOCHDORF took an important step towards the successful implementation of the strategy. Earnings in 2016 reached record figures thanks to the measures initiated earlier.

**The HOCHDORF Group**

The HOCHDORF Group, which was founded in 1895 and has its headquarters 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. As of the end of 2016, HOCHDORF has a 51 % majority holding in the Pharmalys Group. Pharmalys sells infant formula among other things, under the brands Primalac and Swisslac, in over 40 countries. HOCHDORF is among the leading food companies in Switzerland and at 31 December 2016 had more than 630 employees worldwide. HOCHDORF products contribute towards health and well-being, from babies to senior citizens. The products are sold to the food industry and to the wholesale and retail trade in over 90 countries.

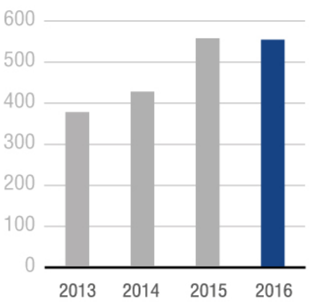
**Our strategic objective**

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. The HOCHDORF Group focuses its products 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 its earnings figures HOCHDORF is aiming for forward integration in terms of both sales and products.

**Financial data**

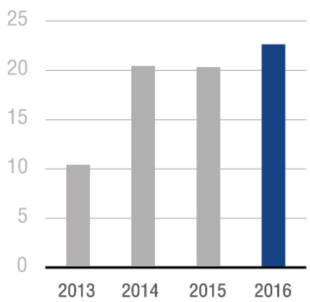
**Gross sales revenue (Turnover)**

CHF Mio.



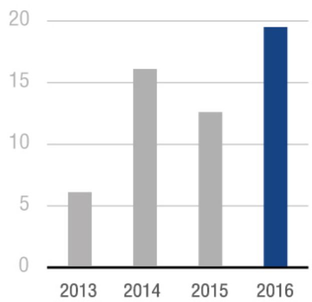

**EBIT**

CHF Mio.



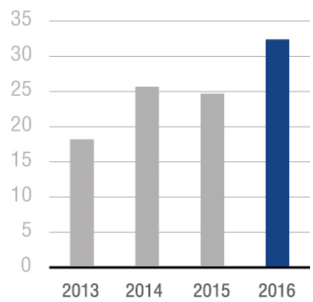

**Net profit**

CHF Mio.




**Earned capital (cash flow)**

CHF Mio.



## Key indicators in the annual report

| Key indicators | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Processed milk and whey in tonnes | 741,769 | 761,240 | 506,963 | 455,647 |
| Products sold in tonnes | 237,054 | 242,821 | 99,155 | 91,699 |
| Total assets (in CHF 1,000) | 425,474 | 340,396 | 331,109 | 243,485 |
| Equity ratio | 10.80 % | 56.60 % | 43.20 % | 42.60 % |
| Cash flow from operating activities (in CHF 1,000) | 24,227 | 18,134 | 20,546 | 18,196 |
| Market capitalisation (in CHF 1,000) | 444,417 | 242,044 | 147,787 | 93,600 |
| Share price at 31.12. in CHF | 309.75 | 168.70 | 138.00 | 104.00 |
| Earnings per share in CHF | 14.12 | 11.73 | 17.45 | 6.95 |
| Staffing levels at 31.12. | 633 | 625 | 573 | 362 |

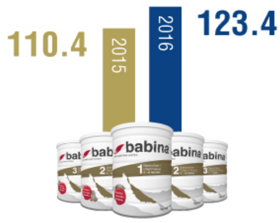
## Market data

### Turnover Dairy Ingredients

CHF Mio.

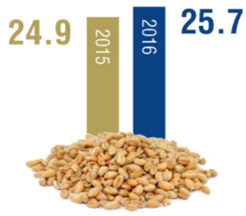

### Turnover Baby Care

CHF Mio.




### Turnover Cereals & Ingredients

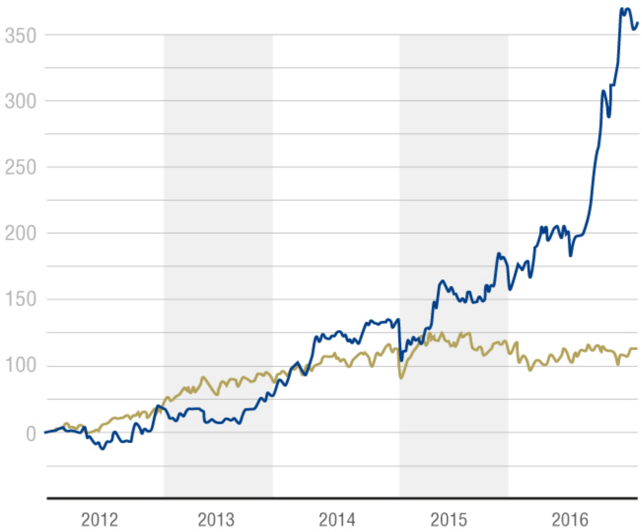
CHF Mio.




## Share prices and charts

### 5 year comparison

%




### Year comparison

%


HOCHDORF share

Comparison value (SPI)

# Dear Shareholders

Page 99 et seq.
Corporate Social Responsibility report

In this letter to the shareholders, we will address two aspects of the strategy and its implementation in depth: the acquisition of the majority stake in the Pharmalys Group and the planning and realisation of the investments in Sulgen. Along with the standard content, you will find the sustainability report published every two years at the end of this annual report. We would like to start by reporting on the solid earnings.

**Very good results achieved**

Page 61
Income statement

In comparison to business year 2015, the HOCHDORF Group can present some record earnings for 2016. Earnings before interest and taxes (EBIT) were CHF 22.5 million or 4.1 % of the production revenue. This number is quite impressive for a company that does business in the food industry, mostly in the business-to-business segment. Five years ago, in business year 2011, the HOCHDORF Group achieved an EBIT of just CHF 1.9 million or 0.5 % of the production revenue. Primarily, Swiss business contributed to the record-high result in 2016. The foreign factories felt the full force of the stormy weather in the milk market due to their product range. In an industry comparison, we have mastered the challenging market situation on the international level quite well, however. The Group earnings of CHF 19.4 million are also at a record level (PY CHF 13.0 million).

Page 96
Proposed appropriation of retained earnings

On account of our success and in light of the major investments, we propose to the Annual General Meeting a slight increase of ten centimes in the dividend payout to CHF 3.80. This will let us continue what we consider to be a cautious dividend policy aimed at sustainability.

**Majority stake in Pharmalys**

Page 32
Baby Care report

Page 41
Group structure

Forward integration, and thus taking a step closer to the end consumer, is a central part of the strategy set at the beginning of 2016. This step is important for a sustainable improvement in the earnings of HOCHDORF. After intensive negotiations, we signed the contract on 25 March 2016. On 19 December 2016, the contract was finalised after an extraordinary Annual General Meeting and the fulfilment of additional mutual closing conditions. As a result, HOCHDORF Holding Ltd has acquired a 51 % stake in Pharmalys Laboratories SA and the jointly formed Pharmalys Africa S.à.r.l. The investment in Pharmalys Tunisie S.à.r.l. will start at 49 %. HOCHDORF will acquire the remaining 2 % after completing an «approval process» by the state of Tunisia.

!

For the financing of the majority stake, HOCHDORF Holding Ltd will issue a three-year mandatory convertible bond for CHF 218.49 million at the end of the March 2017. HOCHDORF will provide information about the details of the mandatory convertible bond in due time.


**HOCHDORF in new realms**
By taking a step closer to the end consumer, the HOCHDORF Group is not navigating in new waters from a historical perspective. In its 120 year history, the HOCHDORF Group has repeatedly worked closer to or farther from the market for end consumers, for example, with the brand Heliomalt or even earlier with the brand Bébé. For us, the integration of Pharmalys means: «Never stop a running engine!» On the market side, Pharmalys must continue to run just as it did before. HOCHDORF's task is to create more structure in the administrative area, sell existing products that are of interest to the markets through the Pharmalys distribution channels and introduce the business model in new markets. In addition, meaningful reporting systems must be established. The respecitve integration work has been underway since the beginning of 2017.

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Interview with Thomas Eisenring

**High performance spray tower line**
At our location in Sulgen, we have been not only producing, but also building for some time. The high rack storage area has been covered since the end of 2016 and the installation of the technical equipment has begun. To enable us to cover future demand for Swiss-made infant formula, the Board of Directors approved the construction of an additional spray tower line for infant formula with a performance of roughly 32,000 tonnes and the installation of additional can filling lines and a high rack storage area in Sulgen. The work is being planned, and the handover of the new lines to production continues to be scheduled for the first quarter of 2018. The staff required for the line will be recruited this business year and trained at the existing spray tower line.

Page 28 et seq.
Report of the three business areas

The project for increasing capacity at the Hochdorf site is running on schedule. The new lines will be available for the coming milk season. In Prenzlau, an investment was made in a higher performance filing line for buttermilk and put into operation as scheduled. In Marbach, the expansion of production capacities was completed this spring.

**Strategy will continue**
With the new strategy adopted at the beginning of 2016, the HOCHDORF Group set significantly higher target margins. The forward integration and the product offensive are two important points that must be pursued persistently. In the case of the forward integration, we have decided to move forward with one customer to achieve the goals more quickly. With a majority stake in the Pharmalys Group, we will achieve an important milestone. In the area of the product offensive, we were also able to achieve some success, but must still improve in the future. Above all, the time from development to market, i.e. to sale in stores, must still be reduced significantly.

**Change in the Board of Directors**
I was elected to the Board of Directors of HOCHDORF Holding Ltd for the first time at the Annual General Meeting in 2002. Since 2014, I have been active as Chairman of the Board of Directors for this exciting company. In 14 years, the HOCHDORF Group has changed substantially and I look back proudly on the goals we have achieved. In the spirit of the successfully implemented new Strategy 2016 – 2020, however, it is now time to make room for other people on the Board of Directors and for me to step down. I would like to thank you for the confidence which you have had in me and which I was continually aware of during my term in office.

Likewise, Meike Bütikofer will also step down from the Board of Directors at the coming Annual General Meeting. She has used her marketing knowledge and her experience in the area of strategic development to support the HOCHDORF Group during her eight years. We would like to thank Meike Bütikofer for the good collaboration and wish her much success and all the best in the future.

The Board of Directors has decided to reduce the board to seven members again. We recommend the election of Ulrike Sailer to the Board of Directors at the Annual General Meeting. She has many years of international experience in the areas of marketing, sales and brand positioning and can use her knowledge to support the HOCHDORF Group on the path to getting closer to the end consumer.

We recommend the election of Dr Daniel Suter as Chairperson at the Annual General Meeting on 5 May 2017.

Page 10 et seq.
Business model, strategy and markets

**Outlook**
The integration of the Pharmalys companies in the HOCHDORF Group will have a substantial impact on the balance sheet and the income statement. International milk markets have also substantially recovered in recent months. Accordingly, we anticipate fairly stable milk quantities and slightly higher prices. In the current business year, we anticipate gross sales revenue of CHF 635 – 670 million and an EBIT as a percentage of production revenue between 6.1 and 6.6 %.

Without reliable suppliers, without the energetic and reliable dedication of our employees, without customers purchasing our products and without the support of our shareholders, the outstanding results in 2016 would not have been achieved. Therefore, we would like to thank you greatly for the confidence you have shown in us and for your support of the HOCHDORF Group.

Josef Leu
**Chairman of the Board of Directors**

Dr Thomas Eisenring
**CEO**

The strategy of the HOCHDORF Group requires a high degree of dynamism and willingness to change at all corporate levels. The (interim) results that have been achieved attest to the fact that these attributes are actively embraced in the HOCHDORF Group.

# HOCHDORF share performance

Page 3
Share prices and charts

### Share price development in 2016

The share price development for HOCHDORF Holding Ltd was extremely pleasing in 2016. The stock achieved the second-best annual performance of all the securities listed on the SIX Swiss Exchange. The most noticeable price increase took place in the fourth quarter of 2016. The price at close of trading on 30 December 2016 was CHF 309.75 (31 December 2015: CHF 168.70). That represents a price increase of +83.6 %, while the Swiss Performance Index (SPI) recorded a zero-sum game over the whole of 2016. When viewed over the last five years (1.1.2012 – 30.12.2016), the price increase for the HOCHDORF share amounted to +313 %. As of 31 December 2016, HOCHDORF Holding Ltd had 1,434,760 registered shares (no change over previous year). The market capitalisation also rose accordingly by +83.6 % to CHF 444.4 million (previous year: 242.0 million).

**Share prices and charts**

### Listing

HOCHDORF Holding Ltd is listed on the SIX Swiss Exchange (ISIN CH0024666528). At the end of 2016, the market capitalisation was CHF 444.4 million.

| | |
|---|---|
| ISIN | CH0024666528 |
| Securities number (VALOR) | 2,466,652 |
| Bloomberg code | HOCN SW |
| Thomson Reuters code | HOCN.S |

### Dividend

On the basis of the good results and taking into account the major capital investments, the Board of Directors is applying to the Annual General Meeting for a dividend payment from capital investment reserves of CHF 3.80 per share (previous year CHF 3.70). With the slight dividend increase, a dividend return of 1.23 % is achieved as at the closing date, 30 December 2016. This cautious and sustainable dividend policy will thus 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.

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Information about significant shareholders

**Shareholders according to category at 31 December 2016**

| Description | Registered shareholders |
|---|---|
| Natural persons | 1,837 |
| Legal entities | 91 |
| Pension funds | 15 |
| Insurance companies | 4 |
| Investment company/fund | 26 |
| Other trusts | 5 |
| Banks | 16 |
| Public corporation | 4 |
| **Total** | **1,998** |

**Shareholders according to breakdown at 31 December 2016**

| Number of shares | Registered shareholders |
|---|---|
| 1 – 10 | 225 |
| 11 – 100 | 1,025 |
| 101 – 1,000 | 637 |
| 1,001 – 10,000 | 93 |
| 10,001 – 100,000 | 17 |
| 100,001 or more | 1 |
| **Total** | **1,998** |

## Disclosure of equity holdings

According to Article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), anyone who in direct or indirect consultation with third parties acquires or sells on his own account the shares of a company based in Switzerland, the equity holdings of which are wholly or partially listed in Switzerland, or of a company based abroad, the equity holdings of which are wholly or partially listed in Switzerland, and thus reaches, falls short of or exceeds the limit value of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔ per cent of the voting rights, whether these are exercisable or not, must disclose this to the company and to the stock exchanges on which the equity holdings are listed.

SIX

www.six-swiss-exchange.com

## Financial calendar

- Annual General Meeting
  5 May 2017
- Dividend payment
  11 May 2017
- Half-yearly statement 2017
  17 August 2017

**Key indicators for the HOCHDORF Holding Ltd stock**

| | | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Share capital at 31.12. | TCHF | 14,348 | 14,348 | 10,709 | 9,000 | 9,000 |
| Number of shares at 31.12. | Units | 1,434,760 | 1,434,760 | 1,070,922 | 900,000 | 900,000 |
| Nominal value per share | CHF | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Profit/loss (–) per share | CHF | 14.12 | 11.73 | 17.45 | 6.95 | –39.69 |
| EBITDA per share | CHF | 23.25 | 21.23 | 25.40 | 20.11 | 15.91 |
| EBIT per share | CHF | 15.66 | 14.04 | 18.69 | 11.44 | 3.07 |
| Cash flow (earned capital) per share | CHF | 22.45 | 17.33 | 23.63 | 20.14 | 15.01 |
| Equity per share | CHF | 31.92 | 134.37 | 133.69 | 115.30 | 110.85 |
| Dividend per share | CHF | 3.80[1)] | 3.70 | 3.70 | 3.20 | 3.00 |
| Peak price | CHF | 320.00 | 178.00 | 141.30 | 105.30 | 89.95 |
| Lowest price | CHF | 163.00 | 107.50 | 100.80 | 79.20 | 66.00 |
| Price at close of trading on 31.12. | CHF | 309.75 | 168.70 | 138.00 | 104.00 | 88.25 |
| Average trading volume per day | Units | 2,650 | 2,312 | 1,202 | 804 | 940 |
| P/E (price/earnings ratio) at 31.12. | | 21.94 | 14.4 | 7.9 | 15.0 | n.a. |
| Dividend return | % | 1.23 | 2.19 | 2.68 | 3.08 | 3.40 |

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

# Business model, strategy and markets

The HOCHDORF Group is one of the leading food companies in Switzerland. 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 holding in Uckermärker Milch GmbH, HOCHDORF is also active in the area of butter, buttermilk and curds in Germany.

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 product segments and offers its customers correspondingly high benefits and service.

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The HOCHDORF Group sees itself as a globally active, independent and agile Swiss company that is organised as a medium-sized business.

**Dairy Ingredients**

The roots of the HOCHDORF Group lie in the production of different milk powders. In 2016, this division was responsible for almost three quarters of gross sales revenue. The following companies form part of the Dairy Ingredients division:

- 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, as well as whey 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. Buttermilk has also been filled in pots at this location since 2015. The products are marketed nationally and internationally. The HOCHDORF Group owns a 60 % share of this company.

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Dairy Ingredients report

**Baby Care**

HOCHDORF has a long tradition in the production of infant formula stretching back many years. Greater emphasis has been placed on the global focus of this division since 2006. In 2016, the HOCHDORF Group earned around 22 % of its revenue with infant formula.

+

HOCHDORF has been manufacturing food for children since 1908.

› Page 32 et seq.

Baby Care report

- The Baby Care Division of HOCHDORF Swiss Nutrition Ltd exports more than 90 % of its products. The broad product range includes 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.

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Cereals & Ingredients report

- 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 dessert 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 and flours 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 and produces high-quality chocolate and sells it to business customers and consumers exclusively on the African continent. The HOCHDORF Group owns a 90 % stake in this company.

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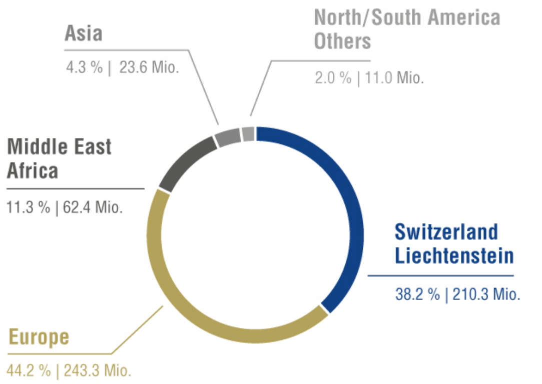
Three oils won an international award in 2016.

**Gross sales revenue by region**

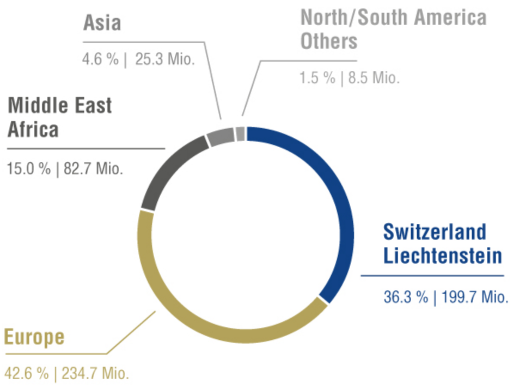
**2015**

relative | absolute




**2016**

relative | absolute




## Strategy 2017 – 2021 continues on the route we have chosen

Our goal is to turn HOCHDORF into a global, profitable niche company with premium products. 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 in all business areas.

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; they include, for example, 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.

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Energy consumption

The HOCHDORF Group is aware that many natural resources and a lot of energy are required to produce 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.

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Dairy Ingredients report

**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 intend 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.

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Baby Care report

**Strategy and markets for Baby Care**

The Baby Care Division 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. As a USP, along with Swissness, we want to be able to continue offering our customers a modern and complete product range of children's nutritional specialities in line with our premium strategy. In the medium term, the Baby Care Division wants to get closer to the consumer in the value chain with its own brands in selected markets (keyword: forward integration).

On the production side, we are seeking to optimise existing capacity for the production of infant formula. At the same time, we will adapt production capacity to meet the high demand. The new spray drying tower line for manufacturing and filling Swiss-made infant formula in Sulgen is expected to start operating in the first quarter of 2018.

At our Prenzlau facility, we are planning to produce basic products for infant formula production to meet market demand. Several global partners are interested in such high-quality products for manufacturing 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 for Cereals & Ingredients

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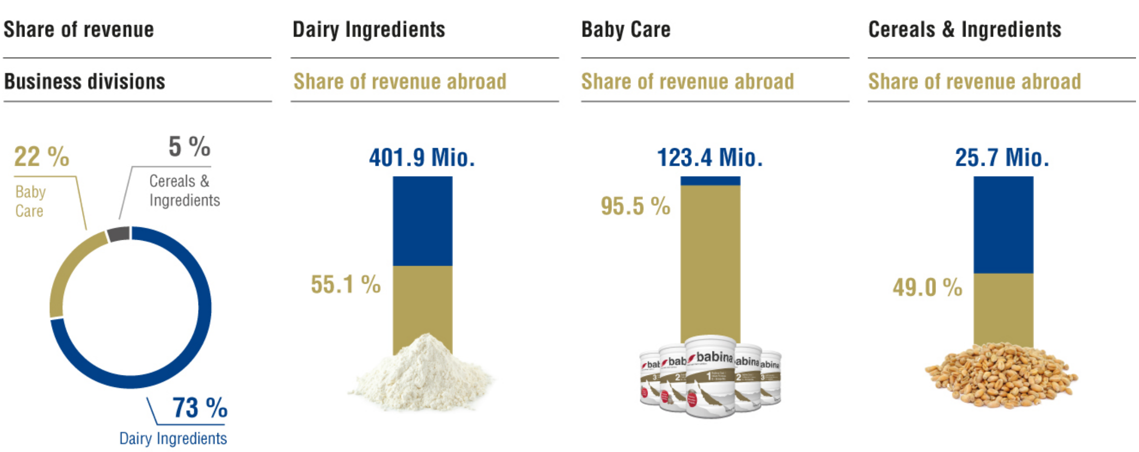
Cereals & Ingredients report

The Cereals & Ingredients Division 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 concentrates primarily on organic vegetable oils and specialist flours made from the press cake. We demand high quality when it comes to raw materials and so we work closely with our raw materials suppliers. In this way we are able to guarantee maximum traceability.

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

**Distribution gross sales revenue**



# «With the forward integration we are also now responsible for brands.»

**Dr Thomas Eisenring, the 2016 business year is now one for the books. How satisfied are you with the business year as a whole?**
› Fundamentally, I am very satisfied. However, I am of the opinion that we could have done even better.

**What circumstances prevented even better results?**
› It is no secret that we had to deal with very difficult market conditions in the EU; we, too, are not immune to them. We reduced volumes there in order to avoid the worst. Furthermore, we incurred restructuring costs at Marbacher Ölmühle, which we did not anticipate.

**Despite the difficult market conditions, the financial results of the HOCHDORF Group were better than ever before in its history. What factors led to these outstanding results?**
› The most important factor was very certainly the strong results at HOCHDORF Swiss Nutrition. All three business divisions made a contribution to the good earnings, with the results in the Cereals & Ingredients and Baby Care divisions coming in significantly above expectations. We were able to increase our productivity once again.

**What, in brief, were the specific challenges in the three business divisions, Dairy Ingredients, Baby Care and Cereals & Ingredients?**
› In the Dairy Ingredients division, we had somewhat less milk in Switzerland in the second half of the year, and it was not always easy to fulfil all customer contracts. In the EU we had to deal with extreme price fluctuations, e.g. in the area of cream and butter, which made profitable business impossible, above all in the second half of the year.

In the Baby Care division we also had difficulties with our capacities again this year, but we were able to achieve and sell one month's more production than in the prior year; since everyone did a good job. Otherwise, the new Food Safety Law in China kept us on tenterhooks that importing infant formula would be much more difficult.

In the Cereals & Ingredients division, we face very important decisions. In 2016, Cereals & Ingredients generated outstanding results; certain contracts, however, will run into the future, and we gave strategic consideration in 2016 to various options with regard to how the division should be developed in future. When we have the right business model here, it could become a big thing.

**The forward integration is an important part of the strategy, and a first step was taken with the majority stake in Pharmalys. What impact will this majority stake have on HOCHDORF?**
› With the acquisition of the majority stake in Pharmalys, we are also now responsible for the brands «Primalac» and «Swisslac»; our responsibility has therefore increased significantly. We will also have to deal with these brands and develop them; that is new for HOCHDORF. On the other hand, we will see big changes in margins; I am assuming that our absolute EBIT will rise significantly this year.


**How are you planning to integrate the Pharmalys companies in the HOCHDORF Group? And what new tasks must HOCHDORF specifically overcome?**

› Fundamentally, I do not like this term «integration of Pharmalys in the HOCHDORF Group». Pharmalys will not become HOCHDORF or vice-versa. A new company will emerge out of this that wants to generate value for all involved parties. The important thing is that we integrate all administrative processes at HOCHDORF and safety-relevant aspects are controlled and monitored. Our corporate governance must naturally also apply to all. If, however, it is a matter of marketing infant formula in countries in the MEA region, then it involves processes that we can hardly affect.

**Can the distribution channels from Pharmalys be used for other HOCHDORF products? If yes, for what products is that planned?**

› Yes, and work is well under way here. One of the most important projects for me is the development of instant milk that is also consumed after baby age. Here, however, we still have some work to do. In April, HOCHDORF South Africa will have diabetes chocolate ready for the market, and it will be sold through the Pharmalys distribution network. In the Cereals & Ingredients division, there will be numerous other products that are suited for sales through this network; they include, for example, our healthy crisps and dietary supplements.

**Internationalisation always has a human component. HOCHDORF will turn into an inter-cultural company. To what extent will this affect the corporate culture of HOCHDORF?**

› Today we are already an inter-cultural company; this will clearly become more intensive, but is fundamentally nothing new for us. The different perspectives resulting from the various business models are much more interesting. As we formulated the press release upon closing the deal, I paid attention, for example, to meeting the requirements according to stock corporation law, while Amir Mechria, the Managing Director of Pharmalys, also saw it as a promotional message.

**Key word Strategy 2016 – 2020: How satisfied are you with the implementation – independently of the forward integration?**

› I am not very satisfied with the result of our product offensive, even if we can celebrate some limited success. But we should not forget that we are using a limited number of resources and doing things we have never done before and doing them in a technical environment that we are not entirely familiar with. But Rome was not built in one day.

The can lines and tower 8 areas have developed well. At Niro 4 in Hochdorf, we have somewhat rolled back capacity utilisation for the benefit of food safety, which has also increased efficiency as measured on the good end product, however. Where I still see potential is in purchasing; we must also improve there.

**What is the strategic focus for HOCHDORF in 2017?**

› Fundamentally, we will systematically continue our Strategy 2016 – 2020. In 2017, I see us focusing on cross-selling in the Pharmalys network, developing the business model in the Cereals & Ingredients division, and ensuring the systematic profitability of the Dairy Ingredients division across all locations.

**In the area of infant formula, HOCHDORF is investing in a new spray tower line for the production of high-quality infant formula. The line should be ready for production in the first quarter of 2018. When will the new spray tower line operate at full capacity? What measures are being taken so that the tower can be filled as quickly as possible?**

› We assume that the new tower will run at full capacity in 2022. We can expand certain projects such as the tenders in Egypt, but we also have a very promising project pipeline. Furthermore, we have created the position of Chief Sales Officer, which does not deal with anything other than new customer acquisition.

**Where are the greatest opportunities, risks and challenges in the Baby Care division in 2017?**

› Fundamentally, we have gained the greatest opportunities in this area with the acquisition of the majority stake in Pharmalys.

A challenge that we can handle quite well, however, is that of formulations. We must change them so that they are in compliance with the new requirements for the EU and are state-of-the-art from a scientific perspective. We are also focusing on increasing capacity, process optimisation of the facilities and the preparatory work for process development of the new production line.

The new regulation in China is not quite without risks. It stipulates that, in future, every brand available on the market must undergo an approval procedure. This procedure will be introduced this year and it involves some uncertainties. In addition, the registration process for each individual brand is relatively elaborate.

**In the Dairy Ingredients division, HOCHDORF wants to increasingly invest in special powder such as instant milk powder, for example. Where are these products produced and for what markets are they interesting?**

› We can produce less complex powder for industrial applications in Prenzlau. We expect that we will be able to use the existing special towers from partners for high-quality powder in the business-to-customer area. There is enough spraying capacity on the market, and we do not need to develop our own to start with.

**The foreign plants in Dairy Ingredients enjoyed a strong tailwind in 2016. What measures are taken so that these plants will also be able to withstand market changes in future?**

› Fundamentally, it is very difficult in the EU to react quickly enough to market conditions, above all, if the volatility is as great as it was last year. Since we are not organised as a cooperative (Genossenschaft) and cannot compensate with the milk price, there is only one long-term solution: we must manufacture products with higher added value.

**You want to increase investments in Kids' Food and in your own brands in the Cereals & Ingredients division. What are the next steps and what is to be expected in the current business year?**

› We need a location in the EU for the Cereals & Ingredients division. In Switzerland, we have more than double the costs that we have in Germany, for example. Furthermore, we must have all the technologies in our own company for Kids' Food products, preferably even in the same plant. We are in the evaluation phase of various alternatives and I hope that we will be able to put our money where our mouth is this year.

**The Marbacher Ölmühle has belonged to the HOCHDORF Group since 2015. How is the plant integrated into the Group, and what is still needed?**

› The Marbacher Ölmühle was basically a construction site in 2016; a good example of the fact that acquisitions can have their pitfalls despite serious due diligence. For the most part, we have replaced half the staff and completely changed the order structure. With the current set-up, I am of the opinion that Marbacher Ölmühle will achieve its targets.

**With the forward integration, the risks for the HOCHDORF Group have also certainly increased. What do you think are the greatest risks that HOCHDORF has to face?**

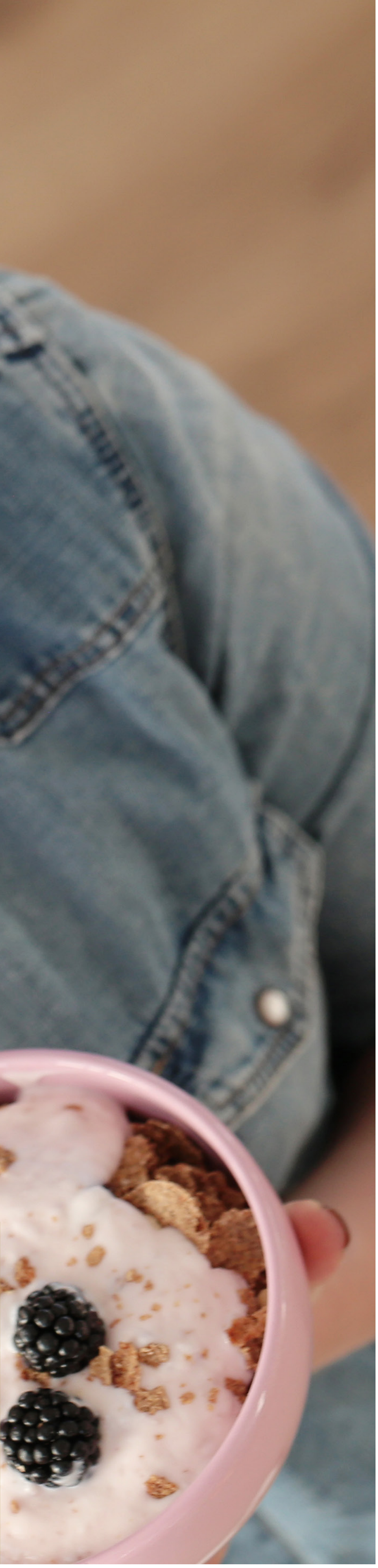
› I am often asked this question and have my own opinion on this. Fundamentally, it is correct that our players are strewn across the entire world, and we assume responsibility for our own brands. At first, this sounds riskier than before. But another critical aspect changed with the forward integration: in the past, Pharmalys was simply one of our customers and we had minimal influence. Today, we have direct influence on all of Pharmalys's activities and can co-shape the entire development; I feel a lot better as a result of this.

I see the greatest risks as lying elsewhere. After the decision to invest in more capacity for the production of infant formula in Switzerland rather than in Germany, a new business model had to be found for our plant in Prenzlau. Today, the plant operates with almost 200 million in turnover and is thus close to the red. That is risky. Furthermore, I am worried about the labour market in Switzerland. It is becoming increasingly difficult to find qualified staff who want to work in four-shift operations.

**In addition to strategic projects, the daily business will continue. Can you sum up what the market and order situation is like in the individual business areas?**

› The order situation is good in all areas. Obtaining orders is usually not the problem; a much more critical question is the price. I am not expecting any quantity or price surprises in 2017.

«Snacking is and always has been part of our eating culture. In evolutionary terms, snacking has been a natural habit since time immemorial.»





# «Healthy Snacking – a recent phenomenon that's here to stay.»

Snacking is not a phenomenon of the 21st century; it is deeply rooted in our culture. Even our ancestors nibbled between meals or ate their kill as the opportunity arose. The main difference between snacking then and our habits today relates to the easy availability of snacks and the raw materials they contain.

We have always liked to snack. For thousands of years, we didn't really take regular meals; we ate when we were hungry and relied on our good fortune as hunter-gatherers. Man foraged and hunted and ate on the spot. The switch from many frequent meals to at least two fixed meal times per day was a relatively recent development in our history – presumably around 7,000 years ago with the advent of agriculture and livestock breeding. With the industrialisation of the 19th century, however, the system of fixed meals shifted towards individualised snacking. What was still missing was the freedom we have today to decide when and what we want to eat. Eating habits were primarily determined by external assembly lines, shift plans and time clocks.

The next radical changes in our eating habits came in the 21st century with its advances in digital technologies. They have simplified and transformed almost every aspect of our lives: we can now simultaneously work, learn, pursue social activities and even order a pizza via the web, regardless of where we are or the time of day.

**Digitisation leads to individualised eating habits**
The amount of time we have for work and our private lives varies from person to person. This greater individualisation is now having a huge influence on our eating habits. The preparation of the three traditional meals is now facing competition from more attractive propositions. Taking time to cook and eat fixed meals is increasingly seen as an unnecessary burden to be avoided. So healthy snacks are the perfect solution today: they free us from time-consuming preparation, waiting time and formal, structured eating rituals. The new, more informal structure of snacking is liberating, relaxed and made for the 21st century.

We eat as the opportunity arises: sitting down or on our feet, with our without cutlery, alone at our office desk or with friends or strangers at a fast food outlet. Whenever works for us.

«Snacks increasingly replace traditional meals. The rising demand for natural products with added value is evidence that those championing snacks are also promoting healthy eating.»

# «Consumers who replace main meals with healthy snacks are promoting their well-being.»

Increasing numbers of people are interested in healthy eating and keeping their weight down. Over 50 per cent of modern snack consumers choose products with additional health benefits. These include snacks that provide the body with proteins, fibre and vitamins.

We can tell that healthy snacks are on trend without conducting any research: new snack products with health benefits are available almost every week through retailers, health shops and websites. And the survey data for international market and consumption studies confirms our subjective perception of reality.

According to a global survey by the Nielsen Institute, 43 per cent of those questioned preferred snacks made from natural ingredients. Around a third of all those interviewed said it was important that their snacks contained as little sugar, salt, fat and calories as possible. They also wanted more fibre, protein and whole grain. Consumers who replace their main meals with healthy snacks may even be promoting their well-being.

**Children and old people need healthy snack options**

A child‘s capacity to store energy is smaller than it is for adults. Healthy snacks are therefore important for children in particular because they supply the regular energy intake they need to stay fit and maintain concentration.

Snacks are as important for old people as they are for children. Beyond a certain age there is a fall in our appetite and desire to take in liquid. To avoid malnutrition, experts in geriatrics recommend taking several snacks as a form of prevention. It is therefore important to incorporate snacks into the daily ritual of older people.

**Snacks throughout the day reduce hunger pangs**

There are specific benefits in supplementing main meals with snacks. If the gaps in our food consumption are too big, we risk low blood sugar. Hunger pangs ensue and can lead to binge eating, which is not associated with a healthy approach to eating. Smaller portions do not stretch our stomach as much as bigger portions so the stomach is slower to empty. As a result, the hormones that regulate appetite are released more steadily and the blood sugar and insulin concentration is more balanced.

People who snack stay more physically and mentally productive and may even have more energy. More is sometimes less.

## CEREALS & INGREDIENTS

# «Our ingredients meet the current demand for healthy snack products.»

**Vegan and protein-rich ingredients are on trend**

The demand for protein-rich snacks is on the rise. More than 3000 new products claiming to be «high in protein» were launched on the market in 2016. The demand for vegetable protein is not just restricted to vegans and vegetarians.

People increasingly describe themselves as flexitarians or part-time vegetarians. For the sake of their health and the environment, they reduce their consumption of meat in particular, which is naturally high in protein, and look for alternative plant sources. As a producer of vegetable and milk-based ingredients, we see this as a positive development.

### Centre of competence for healthy snacks

What is the significance of the trend to healthy, natural snacks for our Cereals & Ingredients division? It is a positive development with interesting market opportunities – we have been producing healthy products with natural ingredients for people of all ages for over 100 years. Which makes us a centre of competence for healthy snacks. We don't need to change our image or break new ground; we just need to keep doing what we have always done: developing and offering high-quality products with added value.

Like our new added-value VIOGERM® High Protein Crisps, manufactured using an extrusion process and enriched with additional vegetable proteins from wheat and rice. The crisps have a protein content of up to 70 per cent – creating a real protein power house.

### Healthy eating with style

Completely new products in our range include superfood crisps with teff and quinoa as well as paleo crisps made of chestnut flour, with or without chia seeds. The paleo crisps are based on the diet of our hunter-gatherer ancestors, which was rich in proteins and dietary fibre. More and more people are basing their eating habits on this philosophy, recognising the positive effects the paleo diet can have on weight, health and performance. You can snack on the paleo and superfood crisps as they are or mix them with muesli. They have no added sugar or artificial ingredients.

One of our companies offering high-quality ingredients for producing on-trend snacks is Marbacher Ölmühle, with its range of special flours produced from oil seeds. Some of these are gluten-free and lactose-free, making them ideal for vegan snacks. The flour made from sunflower seeds has a nutty taste and a very high protein content of over 50 per cent. It is perfect for light baking mixtures and low-carb products. Flour produced from linseed is another interesting ingredient for low-carb snacks. It is rich in fibre and contains virtually no carbohydrate.

Whether we are fans of snacks or not, there is no doubt their momentum is unstoppable. What is positive, however, is that we are in an age where snack consumers increasingly focus on healthy products. And young parents place more value on healthy snacks for their children. Our Kids' Food project is a major priority for us. At HOCHDORF we look forward to actively supporting both young and old with healthy nutrition.

«No study has so far shown a general and direct correlation between snacking and obesity.»

# Financial Report

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We were able to exceed the operational targets.

**Income statement: Operational section**
2016 was the year of constantly falling milk prices in the EU and a large price difference between the price of milk there and in Switzerland. Fluctuations in international commodity prices had a major negative impact on the results of foreign subsidiaries. The Swiss market could not escape from this turbulence. Lower quantities of milk and heavy reliance on the «Schoggi Law» were a consequence of these distortions on the market. This meant that the HOCHDORF Group was not able to meet its expected figures with regard to turnover due to quantity and price effects. Fortunately, however, the Group was able to not just achieve but even outperform in terms of its more important operational targets.

Primarily the Baby Care Division, in which our high-quality products are not as price sensitive, contributed to the good domestic results. The utilisation of capacity increased again thanks to technical improvements. Furthermore, the improvement in the product mix led to very good earnings figures.

In the Dairy Ingredients Division, the situation is increasingly difficult and competitive. This also increasingly applies to domestic sales. Much effort is needed in order to maintain the quantities and margins. Despite the very difficult situation regarding the «Schoggi Law», there was no need for write-downs or additional expenditures.

In the Cereals & Ingredients Division, we were able to achieve additional success by making adjustments and generating profits with new major customers. In Switzerland, the profits from prior years continued and even increased. Abroad, development and expansion is more intensive and is taking longer than expected. This part reported a loss. However, appropriate measures have been introduced so that it will be possible to achieve positive numbers in this division as of 2017.

Thanks to the strong Swiss business, there was a higher percentile gross profit (25.2 %) than in the previous year (23.9 %) despite weak margins in business abroad at Group level. However, the recent nominal increase in the gross profit to CHF 136.8 million is more critical (PY CHF 130.1 million). Gross turnover rose minimally to CHF 551.5 million (PY CHF 551.2 million). We reached a record EBITDA level in the reporting year with CHF 33.4 million (PY CHF 30.5 million). The EBIT result was CHF 22.5 million (PY CHF 20.1 million) with higher amortisations of CHF 10.9 million in 2016 (PY CHF 10.3 million).

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In the reporting year, the main plants once again performed at a very high level and ran close to full capacity. In 2017 an attempt will be made to increase overall production again with technical adjustments and the purchase of partial quantities. The new capacities (tower 9) are urgently needed in order to keep up with the sharp growth in our customers. The target values for operating expenses were largely met. Personnel expenses were higher, largely due to the higher staffing levels required. Operating expenses have come in above internal targets. The main reason for this was higher space and logistics costs as well as higher sales commissions.

**Financial results**
A still strong, but somewhat more stable Swiss franc, lower interest rates on borrowed capital and one-off interest income from offsetting extended payment terms and income from equity investments led to a slightly negative financial result overall. In comparison to the previous year, there was an improvement of almost CHF 5 million. The syndicated loan was renewed in 2016 and doubled in total.


**Income taxes**
Tax costs on the operating result were in line with expectations. In the reporting year, deferred taxes on newly incurred tax losses in the foreign companies were capitalised.

**Cash flow and financing**
In comparison to the previous year, cash flow from operating activities has risen from CHF 19.0 million to CHF 24.2 million. Earned capital increased from CHF 24.9 million to CHF 32.2 million, the main reason being the better operating business and the improvement in the financial result. Despite the expansion of business activities, receivables and inventories remained within a reasonable range.

In the area of investments, more than CHF 43.2 million was spent on plant/buildings/software. The serious investments could be financed from the ongoing cash flow by leaving out the contributions for an expansion of the Sulgen plant. In 2017, investments have continued to be made in more capacities (tower 9/can line/Laglo 2).

As expected, free cash flow was negative in 2016. We also anticipate negative free cash flow in 2017 due to the investments in the expansion of capacity.

Net debt increased from CHF 21.3 million in December 2015 to CHF 213.5 million. The main reason for this is the outstanding purchase price debt for the acquisition of the Pharmalys companies. This amount will fall to a more normal level after the conversion of the mandatory convertible bonds. The heavy investment activity for the expansion of capacity contributed to the increase. The equity ratio fell from 56.6 % at the end of 2015 to 10.8 %. This was because the goodwill from the acquisition of the Pharmalys companies was offset directly against equity. This amount will be rebalanced as of 31 March 2017, since the mandatory convertible bonds can be offset in full as equity. The HOCHDORF Group's financing continues to provide a solid basis for the company's continued growth.

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The mandatory convertible bond is entirely credited as equity capital.

Marcel Gavillet
**CFO**

## Key figures of the HOCHDORF Group

| TCHF | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Processed milk and whey in tonnes | 741,769 | 761,240 | 506,963 | 454,647 | 442,350 |
| Quantities produced incl. cream in tonnes | 236,179 | 241,754 | 99,720 | 89,631 | 87,518 |
| Turnover (gross sales revenue) | 551,476 | 551,208 | 428,689 | 376,145 | 346,614 |
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | **33,360** | **30,455** | **27,197** | **18,099** | **14,318** |
| as % of production revenue | 6.1 % | 5.6 % | 6.4 % | 4.9 % | 4.2 % |
| **Earnings before interest and taxes (EBIT)** | **22,464** | **20,146** | **20,016** | **10,298** | **2,759** |
| as % of production revenue | 4.1 % | 3.7 % | 4.7 % | 2.8 % | 0.8 % |
| **Earnings before taxes** | **22,377** | **15,137** | **17,849** | **6,328** | **-35,402** |
| as % of production revenue | 4.1 % | 2.8 % | 4.2 % | 1.7 % | -10.5 % |
| **Net profit** | **19,406** | **13,024** | **16,139** | **6,063** | **-35,326** |
| as % of production revenue | 3.6 % | 2.4 % | 3.8 % | 1.6 % | -10.4 % |
| **Personnel expenses** | **47,796** | **46,227** | **34,802** | **31,720** | **32,456** |
| as % of production revenue | 8.8 % | 8.5 % | 8.2 % | 8.5 % | 9.6 % |
| **Depreciation on property, plant and equipment** | **10,386** | **9,972** | **6,782** | **7,086** | **10,842** |
| as % of average net inventory | 5.6 % | 6.2 % | 6.1 % | 6.5 % | 8.2 % |
| **Investments in fixed assets** | **42,217** | **22,211** | **16,952** | **3,957** | **8,679** |
| as % of production revenue | 7.8 % | 4.1 % | 4.0 % | 1.1 % | 2.6 % |
| **Earned capital** | **32,213** | **24,870** | **25,310** | **18,126** | **13,507** |
| as % of net sales revenue | 5.9 % | 4.6 % | 6.0 % | 4.9 % | 3.9 % |
| **Cash flow from operating activities (cash flow)** | **24,227** | **19,011** | **20,546** | **18,196** | **15,372** |
| as % of net sales revenue | 4.5 % | 3.5 % | 4.9 % | 4.9 % | 4.5 % |
| Free cash flow (loss) | –33,519 | –3,736 | –11,903 | 13,846 | 7,134 |
| Equity ratio | 10.8 % | 56.6 % | 43.2 % | 42.6 % | 41.6 % |
| Interest coverage (EBIT/interest expense net) | 19.2 | 11.0 | 8.6 | 3.1 | 0.7 |
| Number of shares, outstanding, in units | 1,434,760 | 1,434,760 | 1,070,922 | 900,000 | 900,000 |
| Earnings per share in CHF | 14.12 | 11.73 | 17.45 | 6.95 | -39.69 |
| Cash flow (earned capital) per share in CHF | 22.45 | 17.33 | 23.63 | 20.14 | 15.01 |
| Dividend | 38 % | 37 % | 37 % | 32 % | 30 % |
| Payout ratio | 27.35 % | 39.26 % | 24.55 % | 47.50 % | n.a. |
| Share price as of 31.12 in CHF | 309.75 | 168.70 | 138.00 | 104.00 | 88.25 |
| Dividend return | 1.23 % | 2.19 % | 2.68 % | 3.08 % | 3.40 % |
| Price/earnings (P/E) ratio | 21.9 | 14.4 | 7.9 | 15.0 | n.a. |
| Market capitalisation | 444,417 | 242,044 | 147,787 | 93,600 | 79,425 |
| Staffing levels as of 31.12 | 633 | 625 | 573 | 362 | 381 |

2016 focused on forward integration and the product initiative. The majority stake taken in the Pharmalys companies is a key step for forward integration. The launch of healthy vegetable flours by Marbacher Ölmühle and the first Kids´ Food products are among the successes of the product initiative.

# Dairy Ingredients Division

The Dairy Ingredients Division achieved gross sales revenue of CHF 401.9 m in 2016 (PY: CHF 415.4 m; –3.2 %). In the first half of the year, the prices for milk as a raw material and for milk-based products followed only one direction worldwide: down. In some cases, milk prices recovered very quickly from July 2016, making it necessary to match the product prices to them. The foreign plants were not always successful in dealing with the challenge of optimising the pricing. In Switzerland, the difference compared to international prices decreased again to some extent in the second half of the year but milk production fell significantly in comparison with the previous year.

**Switzerland: HOCHDORF Swiss Nutrition Ltd**
The volume of liquid purchased and processed rose by 5.2 % on the previous year, to 409,119 tonnes (PY 388,927 tonnes). The need for whey increased with the regular manufacture of lactose for our own infant formula. In 2016 a total of 79,752 tonnes of whey were processed, up +44.9 % year-on-year. The supplied and processed quantity of milk fell sharply, following the very high quantities in the first half of the year. By year-end we had processed 315,553 tonnes of raw milk in Switzerland. This figure was down –2.9 % on the previous year (PY: 324,951 tonnes). In the first half of the year, we still posted a quantity of milk that was up +3.5 % on the same period in the previous year.

Product sales enabled the Dairy Ingredients Switzerland Division to achieve gross sales revenue of CHF 211.8 m (PY CHF 227.6 m; –6.9 %). The fall in revenue is due to low raw material prices, which were passed on to customers. It is important to note, however, that the quantity of roller-dried whole milk powder sold to the chocolate industry rose by almost 9 % year-on-year. There are two reasons for this increase in sales: firstly, we increased our market share slightly, and secondly, the chocolate industry had higher requirements for milk powder compared to the previous year.

There was a lack of the necessary B or C milk volumes in Switzerland in the second half of the year to meet the large demand for milk protein powder and skimmed milk powder for Russia. In order to achieve better utilisation of the equipment in this period, the Swiss Customs and Excise Authority approved the importation of skimmed milk concentrate for export products.

Within the Milk Sector Organisation, we were involved in the working group developing a model to succeed the current export support for processed milk-based products («Schoggi Law» funding), among other working groups. The solution that has been developed appears to be a good compromise and can be implemented in practice. This solution will enable export products using Swiss milk to continue to be exported successfully.

We are committed to the successor model of the «Schoggi Law».

The project to expand capacity at the Hochdorf site was almost completed by year-end. With the aid of a reverse osmosis system and a state-of-the-art high concentrator, we will be able to process a greater volume of milk by the spring of 2017. The modern equipment will also enable us to reduce energy consumption per quantity unit.

**Outlook**
The quantity of milk fell sharply towards the end of 2016. The reasons are complex, including the low price of milk, poor quality of feed and easing of the volume restriction on several types of cheese. In the first half of 2017 we expect a volume of milk that is likely to be somewhat below the long-term average. Over the whole business year, we expect gross sales revenue in the range CHF 235 to 245 m.

We are anticipating a lower quantity of milk in the first half of 2017.

Our development department is working on several projects to optimise existing and new processes. We are also involved in several development projects being run by customers. The aim is to evaluate the optimum milk powder for a new product or a change in the formula. We also use our development and process knowledge to support our foreign plants in their projects.

We have acquired the condensed milk business of Alicommerce with effect from 1 January 2017. As a result, we now sell condensed milk that has so far been produced at the Hochdorf site and filled into tubes, directly to the Swiss retail trade. It is necessary to integrate this business.

**Lithuania: HOCHDORF Baltic Milk UAB**
For reasons including the weak market situation and the politically-motivated high price of milk in Lithuania, we manufactured less products in the first half of the year than in the previous year. Under these circumstances, our products were not competitive at an international level. Although the prices of our main products rose in the second half of the year, in some cases they did so less quickly than the price of raw materials.

In total, we processed 60.9 million kg of milk and permeate (–19.4 % compared to PY) and sold 13,261 tonnes of products on the international markets (–25.2 % compared to PY). We achieved gross sales revenues of CHF 19.8 m, which is around –21.7 % lower than the previous year's sales of CHF 25.2 m.

On the development side we have been working on optimising processes and products to manufacture new products, such as micellar casein. After a decision to forgo marketing in 2016 due to the challenging market situation, we have now started selling micellar casein in 2017.

**Outlook**
With regard to the general conditions, it is also essential to observe the price level of milk, milk protein and milk fat this year. The prices for milk protein and milk fat have risen in recent months – and raw milk prices, too. We are cautiously optimistic that the ratio of purchasing and selling prices will settle down at a normal level. The political influence on the price of milk remains a factor of uncertainty. In this respect too, however, we expect that the situation will return to normal, due to rising prices.

Under current conditions, we expect gross sales revenue in the range of CHF 25 to 30 m in 2017.

**Germany: Uckermärker Milch GmbH**
Uckermärker Milch GmbH achieved gross sales revenues of CHF 170.3 m in 2016, which is around +4.7 % higher than the previous year (CHF 162.7 m). The higher turnover is due to the sharp rise in the price of butter in the second half of the year, and the more attractive selling of buttermilk in terms of price.

At 271,700 tonnes of milk, milk permeate, buttermilk and cream, we processed –8.4 % less liquids in our facilities than in the previous year (296,696 tonnes). The creamery and the filling plant for buttermilk were well utilised throughout the year. By mid-year, as scheduled, we were able to put the more powerful filling plant for buttermilk into service. A mixed picture was observed over the year for the dried milk plant and for curd production. In the first half of the year, the facilities were running at full utilisation, while in the second half, it was no longer quite possible to fill the available capacity.

In the middle of 2016, we put the higher-capacity filling facility into operation.

2016 was a year with large price fluctuations, making it very difficult to coordinate raw material purchasing and product sales. Starting from May, for example, cream prices rose sharply. The prices for butter limped along behind this price trend. As a consequence, the relationship between cream costs and the sales price of butter was no longer optimal. It was nevertheless necessary to fulfil existing contracts.

In the powder area, we benefited from the state intervention programme for skimmed milk powder in the first half of the year. Given the market situation at that time, we selected the most worthwhile usage of the milk drying plant as a result.

Right throughout the year, we successfully implemented various cost-cutting measures in production. In addition to these technical measures, it was essential to develop the product portfolio, especially in the powder area. The first higher-quality powders, such as base powders for infant formula or instantised milk powder, were developed and manufactured in test production runs.

At the end of October the Prenzlau plant passed the VLOG audit (food with no genetic engineering) and is now certified to process and produce GMO-free milk products. As a result, we can now also manufacture products for this growth market.

**Outlook**
The milk market in the European Union calmed down somewhat towards the end of 2016, although it does remain challenging. While milk quantities for 2017 are difficult to estimate, they should tend to settle slightly below or at the previous year's level in the first half of the year. The price trend for skimmed milk powder is also difficult to estimate at present, due to the high quantities being stored by the state. We reckon on gross sales revenue of CHF 180 to 190 m in the current business year.

In development, we are continuing to focus on dry products with higher added value. This includes instantised full milk powder, for example.

The Prenzlau plant is to become more independent in future. This means that the plant is to be managed locally by an experienced CEO and its own purchasing and sales department extended. It is also our goal one day to conclude more contracts for our own milk and to buy in less milk from the spot market. In order that we can pay competitive milk prices, however, it is essential to adapt the product range in the direction of higher-quality products. We aim to manage price fluctuations more effectively in the future by employing all these measures.

The Prenzlau plant will get its own local CEO as of April 2017.

Werner Schweizer
Managing Director Dairy Ingredients

## Strategy in brief

«The aim is for the Dairy Ingredients business to develop at a sustainable 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 in the markets as premium alternatives with the corresponding service. Across all our activities, it is important to consider the various underlying conditions and build them into our operational implementation.»

Page 12
Dairy Ingredients strategy

## 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, buttermilk, curd.

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Gross sales revenue (in KCHF) | 401,880 | 415,379 | 298,563 | 264,701 |
| Share of revenue abroad (in %) | 55.1 | 55.2 | 26.1 | 24.1 |
| Volumes sold (in tonnes) | 212,421 | 216,511 | 80,737 | 73,201 |

# Baby Care Division

**Switzerland: HOCHDORF Swiss Nutrition Ltd**

In the 2016 business year, the Baby Care Division increased gross sales revenue by +11.8 % to CHF 123.4 m (PY CHF 110.4 m). The successful optimisation of the existing production facilities as well as the customer and product portfolio were instrumental in generating this growth. In contrast, the volume sold increased by only +2.4 % to 17,159 tonnes (PY: 16,763 tonnes). The percentage difference for the increase in gross sales revenue impressively demonstrates the restructuring of our customer base due to the continuing capacity bottleneck.

Utilisation of the plants for the production and filling of infant formula was at a very high level throughout the year. With hardly any downtime and optimised processes, we were just able to keep up with the growth of our customers. To remain capable of supplying Swiss-made infant formula, investments worth CHF 80 m were approved for expanding the production and filling capacity for infant formula and for storage logistics at the Sulgen site. The building for the high bay racking is now completed and the state-of-the-art storage logistics technology is being installed and tested.

Starting in 2018, additional production capacity will be available to us.

We started construction of the spray tower line in the fourth quarter of 2016. The line is designed with a maximum capacity of about 30,000 tonnes per year. At present we can manufacture a maximum in the region of 17,000 tonnes of infant formula. It is still expected that the additional production capacity will be available to us in the first quarter of 2018. The same applies to the new filling line, which will also be installed and tested during this business year.

À propos forward integration: the HOCHDORF Group took a first key step in this direction by acquiring a majority stake in our long-standing business partner, Pharmalys. It is now necessary to combine the advantages of both companies, learn from each other and make use of synergies.

The development department has changed the formulations to comply with new EU requirements and incorporate the latest scientific findings. It was necessary to adjust the nutritional value profile and the protein content to the new EU regulation for example. Our developers are also focusing on increasing capacity, process optimisation of the existing facilities and the preparatory work for process development of the new production line.

Various clarifications and adjustments had to be made due to the Swiss Trade Mark Protection Act (Swissness Law), which came into effect on 1 January 2017. Thanks to exemptions that have been approved, we can continue to use the Swiss cross on practically all our products. The exemption was granted to us for lactose, for example. We use our own lactose in our products, which is available to a limited extent. Lactose is, however, also a strategic product, for which a dual supplier strategy is urgently required.

Our infant formula is a high-quality product that is manufactured in a complex process with Swiss milk. With our premium products, we consider ourselves a key ambassador of Swiss-made products.

**Outlook**

There is still no additional production capacity available in 2017. In the Baby Care area we nevertheless expect a significant jump in turnover and gross sales revenue in the range of CHF 170 – 180 m, due to the majority stake in Pharmalys.

In development it is necessary to continue adapting some formulations to comply with the new EU regulation. Development work in connection with increasing capacity in Sulgen also remains in focus. We also aim to expand the product range by adding specialist children's food products.

A new regulation in China stipulates that, in future, every brand available on the market must undergo an approval procedure. This procedure will be introduced this year and it involves some uncertainty. In addition, the registration procedure for each individual brand is relatively costly.

Since the start of the year we have also been occupied with the future cooperation with Pharmalys. As a first step, we are focusing on the integration of possible shared processes and systems. In marketing and communication, we will also be able to learn from each other and make use of synergies. Thirdly, we are assessing the option of using the Pharmalys distribution network for selling other HOCHDORF products.

Our existing customers are looking forward to the expansion of capacity. They are planning to increase their sales activities and invest in new markets. On the sales side, the expansion of capacity now enables us to acquire new customers again, with the aim of filling the new capacity. However, we are also planning capacities for our own brands with the strategic objective of forward integration.

Our existing customers and new customers are looking forward to the capacity expansion.

With effect from the start of 2017, Frank Hoogland has taken over management of the Baby Care Division. In getting him on board, we have found a very good internal solution. He has a broad range of international experience in the infant formula field. He is familiar with business-to-business and the business-to-consumer aspects. I myself, as CSO (Chief Sales Officer), will support and organise key strategic sales projects for the HOCHDORF Group. I wish Frank Hoogland every success in his work and look forward to supporting him specifically in strategically important projects.


## Strategy in brief

«We offer our customers a broad 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 is planning further growth in Asia, the Middle 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 optimising our production capacity and expanding it in line with demand. We will make basic products for the production of infant formula at the Prenzlau facility.»

Page 12
Baby Care strategy

## Product range

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

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Gross sales revenue (in KCHF) | 123,391 | 110,417 | 109,988 | 94,507 |
| Share of revenue abroad (in %) | 95.5 | 91.7 | 91.3 | 95.9 |
| Volumes sold (in tonnes) | 17,159 | 16,763 | 15,651 | 14,007 |

# Cereals & Ingredients Division

**Switzerland: HOCHDORF Swiss Nutrition Ltd**
The Cereals & Ingredients Division posted slightly higher gross sales revenue of CHF 18.4 m compared to the previous year (PY CHF 18.0 m); this was achieved with a lower quantity of products sold, at –6.3 % (3,449 tonnes compared to PY 3,681 tonnes), although with a significantly improved product mix. We thus remain on course with our measures for cost optimisation and streamlining the product range. We only just missed our stated turnover target of CHF 20.0 m. In view of the tense market situation in 2016 and the related stagnation of sales in the Swiss retail trade, we are nonetheless satisfied with the overall result.

We were pleased to receive an award for our traditional VIOGERM® Gold Grain product. It was given two stars at the European Taste Award and impressed jurors and customers across the whole of Europe in equal measure: in Sweden, for example, our VIOGERM® Gold Grain is included in wholemeal bars, while in Switzerland it is used as a hazelnut substitute in pastries. A well-known German pasta producer and a major Swiss pastry manufacturer, for example, also use our VIOGERM® Gold Flour in their respective pasta and cracker products, to improve their nutrient content, as well as the taste and texture. In Spain, a well-known brand-name manufacturer enriches protein bars with our VIOGERM® Crisp Flakes.

Demand for ingredients with additional benefits remains high. High-protein and high-fibre products are attracting a great deal of attention, for example, but also lifestyle foods such as vegan products. We have successfully launched new superfood products using quinoa or teff and paleo crisps made from chestnut flour, chia seeds and honey, as well VIOGERM® High Protein Crisps. The latter are perfect for applications with a high proportion of protein as they contain up to 70 % protein.

In the Kids' Food area, we successfully launched the first special products developed in-house using maize and wheatgerm, in collaboration with customers. Other products in the Kids' Food range are at the development stage.

Our marketing activities covered digital and conventional media. We started in the new media field with regular articles on social networks, especially LinkedIn. Throughout the year we also published trade articles and newsletters, achieving a lot of attention from our target audience.

**Outlook**
In the current business year our developers will be very busy developing and introducing market-ready Kids' Food products, taking us closer to end-consumers. We will distribute the products through our existing Baby Care sales network, among other channels. We will also certify our extrusion process in order to manufacture organic crisps. This autumn we are also planning a large-scale presence at FiE in Frankfurt, Germany. FiE is one of the world's ten most important trade fairs in the ingredients area. Preparations for this are running at full speed.

We want to distribute Kids´ Food products via our existing distribution network.

For the 2017 business year we expect gross sales revenue to be at the previous year's level. We expect lower turnover in the still declining bakery products market. We intend to make up for this expected drop in turnover through new products in the Kids' Food, Health Ingredients and VIOGERM® areas.

**Germany: Marbacher Ölmühle GmbH**
Marbacher Ölmühle GmbH generated gross sales revenue of around CHF 7.2 m in 2016, up +5 % on the previous year (PY CHF 6.8 m). In 2016 the entire sales organisation was successfully restructured.

With the aid of a turbo-mill, Marbacher Ölmühle processes the nutrient-rich press cakes that are made during oil production into fine vegetable flour for the food sector. Sales have started very well as the flour enjoys high demand. It is used for example in low-carb cooking, in gluten-free baking and to produce vegan and vegetarian snack products. The Sunflower seed flour, for example, is a true all-rounder thanks to its excellent binding ability and is very healthy with a protein content of over 50 %.

The production as well as the sales of vegetable flours had a good start.

Marbacher Ölmühle was again able to demonstrate the high quality of its products in 2016. The panel of experts at the Superior Taste Awards awarded two stars to its organic safflower oil. The German Agricultural Society (DLG) also recognised the Bioland sunflower oil with its gold medal and the Naturland rapeseed oil with the DLG award for rapeseed oils – clear testimony to the continuity of our product quality.

**Outlook**
In the spring of 2017 the expansion of additional production capacity will be completed. We will install three additional oil presses and, in the course of the year, once again increase our production volume for vegetable oils and flour from oil seeds.

In February 2017 we exhibited at the BioFach trade fair in Nuremberg for the first time with our own stand. BioFach is the world's leading fair for organic foods and a suitable platform to further boost awareness of Marbacher Ölmühle. With this objective in mind, we also refreshed our website.

Once this expansion phase is complete, we expect a further increase in turnover that will significantly exceed market growth.

**South Africa: HOCHDORF South Africa Ltd**
From May 2016 onwards we were able to generate our first sales, after a slight delay. Since we are a classic start-up firm, our first gross sales revenue was still at a low level. As far as the quality of our products is concerned, we received consistently positive feedback from our customers and we continue to do so.

Our marketing campaigns were geared towards making our products and the Afrikoa brand well known. We communicate actively on several social media channels and on the Internet. We also exhibited at the Winelands Chocolate Festival on 20 and 21 August in the South African town of Stellenbosch. Our trade fair stand was large relative to the size of our business. In this case too, feedback on the three Afrikoa chocolates was consistently positive. We focus on storytelling and emotions in all our marketing activities. Our philosophy is central: «Made in Africa for Africa.»

«Made in Africa for Africa» is always at the centre of our philosophy.

In addition to the three standard chocolates that are available on the market, we have also been involved in developing a chocolate for diabetics. We will launch this chocolate on the African market in 2017.

**Outlook**
The current business year is still dominated by developing the market. We are investing in a more powerful production plant and expect significantly higher gross sales revenue in our second business year.

In addition to launching the above-mentioned chocolate for diabetics, we will develop and produce chocolate for larger business-to-business customers. A new 67 % chocolate is also planned. This chocolate will be developed especially for the «67 minutes/Mandela Day» in South Africa. This charitable institution is very well known in South Africa. Mandela Day is celebrated on 18 July every year.


## Strategy in brief

«The Cereals & Ingredients Division intends 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 for and in Africa. On the product side, the Cereals & Ingredients Division is organising the entry into the Kids' Food area.»

Page 13
Cereals & Ingredients strategy

## Product range

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

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Gross sales revenue (in KCHF) | 25,655 | 24,859 | 17,913 | 19,974 |
| Share of revenue abroad (in %) | 49.0 | 45.9 | 22.9 | 24.7 |
| Volumes sold (in tonnes) | 7,474 | 8,547 | 3,733 | 4,452 |

# 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 2016

The Group structure of the HOCHDORF Group (hereinafter referred to as «HOCHDORF») is detailed on the following page. All shareholdings are listed on page 66 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 64 of the Annual Report. Various notifications were received in the reporting period in accordance with Article 120 of the FMIA. Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group in the meaning of Article 120 of FMIA and hold 5.35 % of the capital and of the voting rights (previous year: 5.21 % 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 2016, 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 conditional share capital amounting to a nominal total of no more than CHF 7,173,800 or no more than 717,800 registered shares of a nominal value of CHF 10.

### 2.3. Capital changes

An overview of the capital changes can be found on page 66 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 15 % of the voting rights.

**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** |
| 100 % | **HOCHDORF Swiss Whey Ltd** | 6281 Hochdorf | **CHF 100,000** |
| 100 % | **HOCHDORF Nutricare Ltd** | 6281 Hochdorf | **CHF 1,200,000** |
| 100 % | **Marbacher Ölmühle GmbH** | DE-71672 Marbach | **EUR 2,000,000** |
| 100 % | **Schweiz. Milch-Gesellschaft AG** | 6281 Hochdorf | **CHF 100,000** |
| 90 % | **HOCHDORF South Africa Ltd** | SA-7741 Cape Town | **ZAR 500,000** |
| 60 % | **HOCHDORF America's Ltd** | UY-11000 Montevideo | **UYU 3,283,200** |
| 60 % | **Uckermärker Milch GmbH** | DE-17291 Prenzlau | **EUR 10,000,000** |
| 51 % | **Pharmalys Laboratories SA** | 6281 Hochdorf | **CHF 100,000** |
| 51 % | **Pharmalys Africa S.à.r.l.** | TN-1053 La Marsa Tunis | **TND 120,000** |
| 49 % | **Pharmalys Tunisie S.à.r.l.** | TN-8013 Nabeul Tunesien | **TND 3,300,000** |
| 26 % | **Ostmilch Handels GmbH** | DE-61348 Bad Homburg | **EUR 1,000,000** |
| 26 % | **Ostmilch Frischdienst Magdeburg GmbH** | DE-39179 Meitzendor | **EUR 25,000** |
| 26 % | **Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG** | DE-09661 Schlegel | **EUR 51,129.20** |

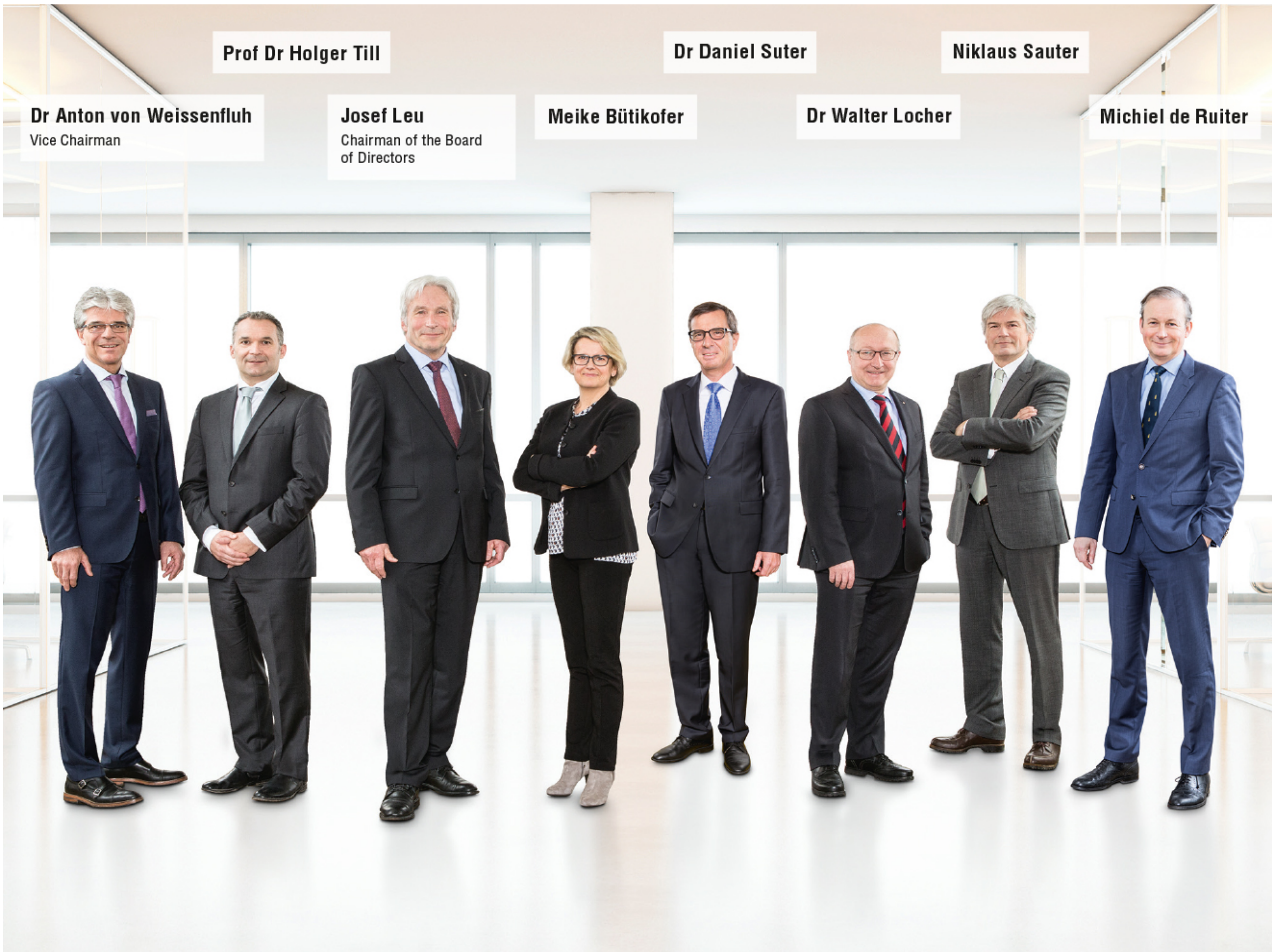
# 3. Board of Directors

### 3.1. Members of the Board of Directors

In 2016, the Board of Directors of HOCHDORF Holding Ltd consisted of seven non-executive members. The eighth member of the Board of Directors, Michiel de Ruiter, elected at the Extraordinary General Meeting of 29 November 2016, was a member of the Group Management in his capacity as Managing Director Baby Care from 2006 to his resignation on 30 April 2015. None of the other members of the Board of Directors 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, expiring at the time of the next ordinary Annual General Meeting. Re-election is possible. 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 a 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 Annual General Meeting after turning 70. In the reporting period, Urs Renggli resigned from the board and Dr Daniel Suter was elected to the board at the ordinary Annual General Meeting of 6 May 2016. Josef Leu and Meike Bütikofer submitted their notice of resignation at the 2017 Annual General Meeting.

| Name | Born | Nationality | Member since | Elected in | Elected until |
|---|---|---|---|---|---|
| Josef Leu, Chairman | 1950 | Switzerland | 2002 | 2016 | 2017 |
| Dr Anton von Weissenfluh, Vice Chairman | 1956 | Switzerland | 2005 | 2016 | 2017 |
| Meike Bütikofer | 1961 | Switzerland | 2009 | 2016 | 2017 |
| Michiel de Ruiter | 1962 | Netherlands | 2016 | 2016 | 2017 |
| Dr Walter Locher | 1955 | Switzerland | 2014 | 2016 | 2017 |
| Niklaus Sauter | 1962 | Switzerland | 2014 | 2016 | 2017 |
| Dr Daniel Suter | 1955 | Switzerland | 2016 | 2016 | 2017 |
| Prof Dr Holger Karl-Herbert Till | 1962 | Germany | 2014 | 2016 | 2017 |




### 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-Bund 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:** Freelance 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 AG in Küssnacht am Rigi; 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 Bütikofer 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.

### Michiel de Ruiter

1962; **Place of residence:** Amstelveen/Netherlands; **Member of the Board of Directors since:** 2016. **Training/degree:** Master of Science in Business Administration & Marketing at the Agricultural University of Wageningen, Holland. **Professional background:** 1987 to 1994 senior consultant McKinsey (Amsterdam, São Paulo, Brussels); 1994 to 1997 Commercial Director and M&A Director Deli Universal, Rotterdam; 1997 to 1999 Marketing and Business Development Director Friesland Consumer Products Europe; 1999 to 2006 Managing Director Infant Nutrition Royal Friesland Campina, Leeuwarden, Ede; 2006 to 2015 Managing Director Baby Care HOCHDORF Swiss Nutrition Ltd, Hochdorf. **Professional activity:** Since 2015 CEO of Koninklijke Zeelandia Groep b.v., Zierikzee/Netherlands. **Other activities:** None.

### 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.

### 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.

### Dr Daniel Suter

1955; **Place of residence:** Bottmingen BL; **Member of the Board of Directors since:** 2016. **Training/degree:** Dr. oec. publ. **Professional background:** 1982: Business studies at the University of Basel; 1988: Certified Auditor; 2009: Doctorate at the University of Zurich; 1982 to 2016 PricewaterhouseCoopers, Basel. **Professional activity:** Freelance since July 2016. **Other activities:** 2009 to 2016 visiting lecturer for auditing at the University of Zurich, holding courses on internal and external audits; employer representative of the HOCHDORF Group pension fund.

### 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 2016, the Board of Directors met for five regular meetings, six 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: Dr Daniel Suter (Chairman), Dr Walter Locher, Niklaus Sauter. The main tasks of the 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 remuneration of the auditors and their independence
› Evaluating the risk management procedure.

In 2016, the Audit Committee met five times. In addition to the standard agenda items, special audits were conducted by the outsourced Internal Audit (PWC) as part of risk management, covering the process of milk procurement and in the area of IT security.

**Personnel and Remuneration Committee**
Members: Dr 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 four times.

**Market and Strategy Committee**
Members: Meike Bütikofer (chair), Dr Anton von Weissenfluh, Prof Dr 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 twice.

### 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 outsourced internal auditor PriceWaterhouseCoopers Ltd and the external auditor Ernst & Young Ltd, who are in direct contact with the chair of the Audit Committee, constitute further information and control systems.

## 4. Group Management

### 4.1. Member of the Group Management

As at 31 December 2016, 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

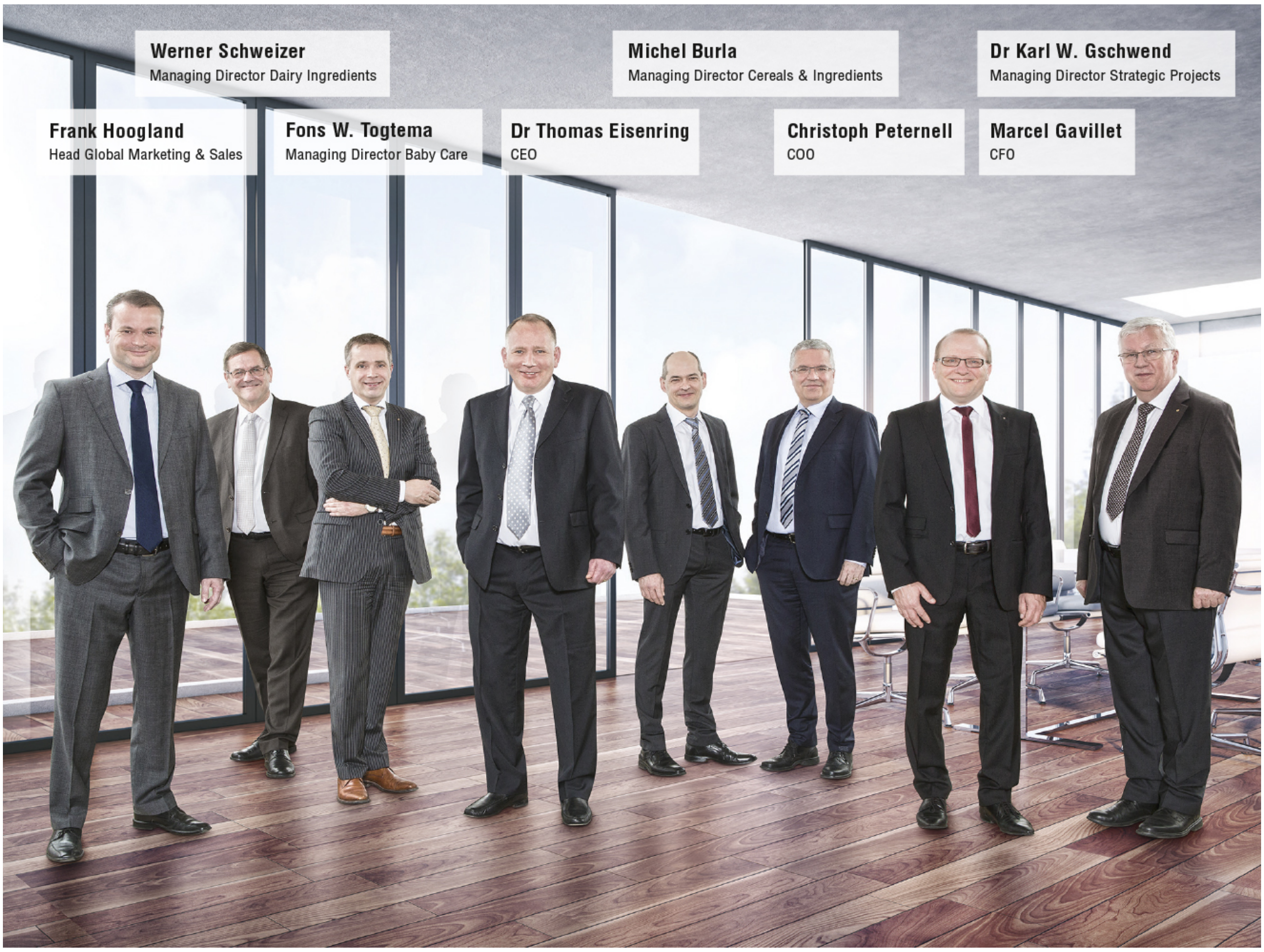
1965; Swiss citizen; **Place of residence:** Winterthur ZH **Function:** CEO since 2013. **Training/degree:** Mechanic, Dr. oec. University of St. Gallen. **Professional background:** 1985 to 1991 aircraft mechanic, Swissair, Zurich airport; 1993 to 1997 senior consultant, Schuh & Co. Complexity Management, 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. Since 2016, Advisory Board member of Hess Natur-Textilien GmbH, Butzbach, Germany.

#### Marcel Gavillet

1962; Swiss citizen; **Place of residence:** Retschwil LU. **Function:** 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. **Function:** 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. **Function:** 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. **Function:** 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; **Function:** Managing Director Baby Care, since January 2017. **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 Infant Formula, Fonterra in China; 2015 to 2016 Head of Global Marketing & Sales, HOCHDORF Swiss Nutrition Ltd, Switzerland. **Other activities:** None.

#### Werner Schweizer

1955; Swiss citizen; **Place of residence:** Kriens LU. **Function:** 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; **Function:** Chief Sales Officer, since January 2017; **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, HOCHDORF Swiss Nutrition Ltd, Switzerland; 2015 to 2016 Managing Director Baby Care, 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
b) Three mandates as board member or member of other top executive or governing bodies of companies within the meaning of Art. 727 (1) no. 2 of the Swiss Code of Obligations (CO); and additionally
c) Five mandates as board member or member of other top 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 15 % 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»: 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
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 125 of the FMIA 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 Ltd, Lucerne, was elected auditor of HOCHDORF Holding Ltd and its subsidiaries for 2016. Bernadette Koch has been the chief auditor since 2014. Ernst & Young Ltd has been the auditor since 2014.

### 8.2. Audit fee
Calculated on an accrual basis, the expenses of the auditor Ernst & Young Ltd for the audit of the individual financial statements and the consolidated financial statements for 2016 amounted to approximately CHF 152 thousand.

### 8.3. Additional fees
Additionally, expenses of CHF 10 thousand are included in the reporting period for consulting services of Ernst & Young Ltd.

### 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 2016, the chief auditor attended two 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 2016, HOCHDORF Holding Ltd underwent various reportable shareholding changes.

**Contact for investor relations:**
HOCHDORF Holding Ltd, Investor Relations, Siedereistrasse 9, CH-6281 Hochdorf, tel: +41 41 9146562, e-mail: ir@hochdorf.com.

The Annual General Meeting will take place on 5 May 2017. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by mail.

The next business results (half-year results 2017) will be published on Thursday, 17 August 2017.

# 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 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 through annual employee review meetings, at which personal targets and performance are assessed in general terms, as well as according to quantitative criteria, which are derived from the current financial results.

## Ordinance Against Excessive Compensation (VegüV)

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 | Recommendation by | Approval by |
|---|---|---|
| Remuneration paid to the Board of Directors | Personnel and Remuneration Committee | Board of Directors |
| Fixed remuneration paid to Group Management (subsequent year) | Personnel and Remuneration Committee | Board of Directors |
| Variable remuneration paid to Group Management (subsequent year) | Personnel and Remuneration 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. Another modification of the fees, effective 1 January 2017, was set at the meeting of the Board of Directors on 14 December 2016.

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 | Remuneration | Social contributions | Expenses | 2016 | 2015 |
|---|---|---|---|---|---|
| Josef Leu, Chairman, PCC | 85,000 | 10,200 | 5,000 | 100,200 | 111,954 |
| Dr Anton von Weissenfluh, Vice Chairman, PCC, MSC | 63,000 | 9,298 | 5,000 | 77,298 | 77,395 |
| Meike Bütikofer, MSC | 53,000 | 7,822 | 5,000 | 65,822 | 65,904 |
| Dr Walter Locher, AC | 55,000 | 8,118 | 5,000 | 68,118 | 68,202 |
| Urs Renggli, AC, until 6 May 2016 | 24,000 | 3,343 | 1,875 | 29,218 | 78,693 |
| Niklaus Sauter, PCC, AC | 61,000 | 9,003 | 5,000 | 75,003 | 63,606 |
| Prof Dr Holger Karl-Herbert Till, MSC | 51,000 | 7,527 | 5,000 | 63,527 | 63,606 |
| Dr Daniel Suter, AC, from 6 May 2016 | 40,000 | 6,131 | 3,125 | 49,256 | n.a. |
| Michiel de Ruiter, MSC, from 29 November 2016 | 3,750 | 554 | 1,049 | 5,353 | n.a. |
| **Total** | **435,750** | **61,996** | **36,049** | **533,795** | **529,360** |

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

The Annual General Meeting on 6 May 2016 approved a total amount of CHF 535,000 for the current term of office until the 2017 AGM. This total amount will not be exceeded. The following remuneration is envisioned for the term of office starting with the 2017 Annual General Meeting, with social contributions being factored in at the flat rate of 15 %. Starting in 2017, 20 % of the remuneration will be paid out in the form of stock options with a vesting period of 3 years. If a person departs from the Board of Directors, the shares are freely available immediately.

| Remuneration of the Board of Directors | Basic salary | Meetings Committees | Social contributions | Expenses | Total 2017 |
|---|---|---|---|---|---|
| Josef Leu, Chairman, PCC | 95,000 | 40,000 | 20,250 | 5,000 | 160,250 |
| Dr Anton von Weissenfluh, Vice Chairman, PCC | 65,000 | 10,000 | 11,250 | 5,000 | 91,250 |
| Meike Bütikofer, MSC | 55,000 | 9,500 | 9,675 | 5,000 | 79,175 |
| Dr Walter Locher, AC | 55,000 | 12,500 | 10,125 | 5,000 | 82,625 |
| Michiel de Ruiter, MSC | 55,000 | 7,500 | 9,375 | 5,000 | 76,875 |
| Niklaus Sauter, AC, PCC | 55,000 | 22,500 | 11,625 | 5,000 | 94,125 |
| Dr Daniel Suter, AC | 55,000 | 21,500 | 11,475 | 5,000 | 92,975 |
| Prof Dr Holger Karl-Herbert Till, MSC | 55,000 | 7,500 | 9,375 | 5,000 | 76,875 |
| **Total** | **490,000** | **131,000** | **93,150** | **40,000** | **754,150** |

The Board of Directors is planning a reduction in the number of board members from eight to seven at the Annual General Meeting in 2017, with the total cost for board members being reduced accordingly.

The total amount for 2017 to be put to a vote comes to CHF 710,000, as rounded, if this reduction is taken into account.

## 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. Variable remuneration includes an upper limit for all members of the Group Management. It totals a maximum of twice the amount of the basic salary not including expenses. Hence, the total of the basic remuneration and the variable remuneration may not exceed 3 times the basic salary not including expenses. 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. Starting in 2017, 20 % of the variable remuneration will be paid out in the form of stock options with a vesting period of 3 years. If a person departs from the Group Management, the shares are freely available immediately.

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 Remuneration 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 (2 % from 2017). Variable remuneration can be adjusted downwards depending on target achievement. 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 division and the position, it amounts to 0.5 % of the consolidated EBIT for the HOCHDORF Group or between 0.75 % and 3.5 % of the EBIT generated by the individual's business area. Variable remuneration can be adjusted downwards depending on target achievement. The employment agreements are concluded for an indefinite period of time, with a notice period of 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

| Remuneration paid to the CEO and Group Management | Group Management total | | CEO | |
|---|---|---|---|---|
| In CHF (gross) | 2016 | 2015 | 2016 | 2015 |
| Basic salary [1)] | 1,928,925 | 1,660,237 | 467,800 | 467,800 |
| Variable remuneration | 1,383,718 | 1,151,725 | 561,600 | 503,641 |
| Social contributions, including employee pension plan | 496,785 | 425,756 | 142,152 | 136,208 |
| Other benefits [2)] | 175,400 | 129,883 | 28,000 | 28,000 |
| **Total** | **3,984,828** | **3,367,601** | **1,199,552** | **1,135,649** |
| Number of members of Group Management | 8 | 8 | | |

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

2) Private apportionments for company vehicles, vehicle payments, company loyalty gifts.

In 2015, Christoph Peternell and Frank Hoogland joined the Group Management during the year, as a result of which total compensation in 2016 is not directly comparable to 2015. The Annual General Meeting on 6 May 2016 approved a total amount of CHF 4,700,000 for the 2016 reporting year.

Based on contractual agreements and the calculation of variable remuneration using the budgeted results for 2017, the total amount for 2017 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) | 2017 | 2017 |
| Basic salary [1] | 2,102,695 | 558,020 |
| Variable remuneration | 2,112,668 | 952,490 |
| Social contributions, including employee pension plan | 729,525 | 238,796 |
| Other benefits [2] | 176,800 | 28,000 |
| **Total** | **5,121,688** | **1,777,306** |
| **Number of members of Group Management** | **8** | |

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

2) Private apportionments for company vehicles, vehicle payments, company loyalty gifts.

In order to be able to cover the possibility that the budget may be exceeded in 2017, a reserve of 10 % was factored in, which amounts to about CHF 600,000 in additional variable remuneration.

The total amount for 2017 to be put to a vote comes to CHF 5,700,000, 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 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

Urs Renggli departed as Member of the Board of Directors on 6 May 2016. His compensation is already listed in advance. There were no personnel changes in Group Management.

## 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 | | 2016 | 2015 |
|---|---|---|---|
| Josef Leu | Chairman, PCC | 1,550 | 1,290 |
| Dr Anton von Weissenfluh | Vice-President, PCC, MSC | 1,300 | 1,203 |
| Meike Bütikofer | MSC | 531 | 441 |
| Dr Walter Locher | AC | 1,400 | 1,200 |
| Urs Renggli | AC, until 6 May 2016 | n.a. | 5,628 |
| Michiel de Ruiter | MSC, starting 29 Nov 2016 | 0 | n.a. |
| Niklaus Sauter | PCC, AC | 400 | 114 |
| Dr Daniel Suter | AC, starting 6 May 2016 | 160 | n.a. |
| Prof Dr Holger Karl-Herbert Till | MSC | 150 | 150 |
| **Total** | | **5,491** | **10,026** |

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

| Group Management | | 2016 | 2015 |
|---|---|---|---|
| Dr Thomas Eisenring | CEO | 825 | 600 |
| Marcel Gavillet | CFO | 1,230 | 1,300 |
| Dr Karl Gschwend | Managing Director Strategic Projects | 114 | 114 |
| Werner Schweizer | Managing Director Dairy Ingredients | 165 | 165 |
| Michel Burla | Managing Director Cereals & Ingredients | 300 | 300 |
| Fons Togtema | Managing Director Baby Care | 32 | 32 |
| Christoph Peternell | COO | 400 | 200 |
| Frank Hoogland | Managing Director Global Marketing and Sales | 0 | 0 |
| **Total** | | **3,066** | **2,711** |

## Additional fees and remuneration

In the reporting year, additional fees of CHF 10,000 were paid out to board member Niklaus Sauter for additional expenses and activities in connection with the acquisition of the Pharmalys companies. Otherwise, no additional fees or remuneration were paid to the Board of Directors or to Group Management, including related persons.

## 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 year. 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, 10 March 2017

# 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 2016. 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 56 of the remuneration report.

**Board of Directors' responsibility**
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. 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 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 2016 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young AG

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

# Annual financial statement

## Consolidated balance sheet as at 31 December

| | | 2016 CHF | In % | 2015 CHF | In % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1)* | 67,707,898 | 15.9 % | 43,023,224 | 12.6 % |
| Accounts receivables | 2)* | 58,868,481 | 13.8 % | 49,018,525 | 14.4 % |
| Accounts receivables from related parties | 2)* | 8,420,706 | 2.0 % | 2,600,386 | 0.8 % |
| Accounts receivables from associated parties | 2)* | 2,393,225 | 0.6 % | 0 | 0.0 % |
| Other receivables from related parties | 2)* | 40,913 | 0.0 % | 0 | 0.0 % |
| Other short-term receivables | 2)* | 5,624,557 | 1.3 % | 4,121,259 | 1.2 % |
| Inventories | 3)* | 49,782,122 | 11.7 % | 48,980,461 | 14.4 % |
| Accrued income | 4)* | 15,175,349 | 3.6 % | 10,310,031 | 3.0 % |
| **Current assets** | | **208,013,251** | **48.9 %** | **158,053,886** | **46.4 %** |
| Property and plant | | 72,438,655 | 17.0 % | 72,410,794 | 21.3 % |
| Other fixed assets | | 130,538,589 | 30.7 % | 97,303,519 | 28.6 % |
| **Total fixed assets** | 5)* | **202,977,245** | **47.7 %** | **169,714,313** | **49.9 %** |
| Shareholdings | 6)* | 2,897,669 | 0.7 % | 2,377,144 | 0.7 % |
| Financial assets | 7)* | 9,202,490 | 2.2 % | 8,299,899 | 2.4 % |
| Intangible assets | 8)* | 2,383,628 | 0.6 % | 1,950,404 | 0.6 % |
| **Non-current assets** | | **217,461,032** | **51.1 %** | **182,341,760** | **53.6 %** |
| **Total assets** | | **425,474,283** | **100.0 %** | **340,395,646** | **100.0 %** |
| **Liabilities** | | | | | |
| Trade payables | 9)* | 58,554,830 | 13.8 % | 52,872,193 | 15.5 % |
| Short-term financial liabilities | 10)* | 9,132,437 | 2.1 % | 1,925,206 | 0.6 % |
| Other short-term financial liabilities to related parties | 10)* | 54,300,508 | 12.8 % | 1,500 | 0.0 % |
| Other short-term liabilities | 11)* | 12,784,274 | 3.0 % | 14,071,722 | 4.1 % |
| Accrued liabilities and deferred income | 12)* | 4,651,986 | 1.1 % | 5,094,650 | 1.5 % |
| **Current liabilities** | | **139,424,035** | **32.8 %** | **73,965,271** | **21.7 %** |
| Non-current financial liabilities | 13)* | 120,731,978 | 28.4 % | 62,441,675 | 18.3 % |
| Non-current financial liabilities to related parties | 13)* | 105,500,000 | 24.8 % | 0 | 0.0 % |
| Provisions | 14)* | 14,013,721 | 3.3 % | 11,200,278 | 3.3 % |
| **Non-current liabilities** | | **240,245,700** | **56.5 %** | **73,641,952** | **21.6 %** |
| Share capital | | 14,347,600 | 3.4 % | 14,347,600 | 4.2 % |
| Own shares | | –5,145,813 | –1.2 % | –3,814,455 | –1.1 % |
| Capital reserves | | 96,730,882 | 22.7 % | 101,490,092 | 29.8 % |
| Profit reserves | | –93,647,546 | –22.0 % | 59,040,493 | 17.3 % |
| Minority interests | | 13,588,365 | 3.2 % | 8,203,186 | 2.4 % |
| Result current year | | 19,931,059 | 4.7 % | 13,521,507 | 4.0 % |
| **Shareholders' equity** | | **45,804,548** | **10.8 %** | **192,788,423** | **56.6 %** |
| **Total liabilities and equity** | | **425,474,283** | **100.0 %** | **340,395,646** | **100.0 %** |

*Explanations in the notes

## Consolidated income statement

| | | 2016 CHF | In % | 2015 CHF | in % |
|---|---|---|---|---|---|
| | | 1.1.16 – 31.12.16 | | 1.1.15 – 31.12.15 | |
| Sales of products | 15)* | 550,925,511 | 101.5 % | 550,655,207 | 101.0 % |
| Other revenue | 16)* | 550,933 | 0.1 % | 552,899 | 0.1 % |
| **Gross sales revenue** | | **551,476,444** | **101.6 %** | **551,208,106** | **101.1 %** |
| Reductions in revenue | 17)* | –9,319,733 | –1.7 % | –6,967,012 | –1.3 % |
| **Net sales revenue** | | **542,156,711** | **99.9 %** | **544,241,094** | **99.8 %** |
| Change in inventories of semi-finished and finished products | | 459,145 | 0.1 % | 987,457 | 0.2 % |
| **Production revenue** | | **542,615,856** | **100.0 %** | **545,228,552** | **100.0 %** |
| Cost of materials and goods | | –405,839,451 | –74.8 % | –415,088,478 | –76.1 % |
| **Gross operating profit** | | **136,776,405** | **25.2 %** | **130,140,074** | **23.9 %** |
| Personnel expenses | 18)* | –47,795,519 | –8.8 % | –46,227,008 | –8.5 % |
| Other operating expenses | 19)* | –55,620,644 | –10.3 % | –53,458,291 | –9.8 % |
| **Total operating expenses** | | **–103,416,164** | **–19.1 %** | **–99,685,299** | **–18.3 %** |
| **EBITDA** | | **33,360,241** | **6.1 %** | **30,454,775** | **5.6 %** |
| Depreciation on fixed assets | | –10,386,286 | –1.9 % | –9,971,557 | –1.8 % |
| Amortisation on intangible assets | | –509,951 | –0.1 % | –337,580 | –0.1 % |
| **EBIT** | | **22,464,004** | **4.1 %** | **20,145,638** | **3.7 %** |
| Income from associates and joint ventures | 20)* | 520,525 | 0.1 % | 334,780 | 0.1 % |
| Financial result | 20)* | –568,567 | –0.1 % | –5,230,784 | –1.0 % |
| **Earnings before taxes (EBT)** | | **22,415,961** | **4.1 %** | **15,249,634** | **2.8 %** |
| Non-operating result | 21)* | –30,513 | 0.0 % | –39,845 | 0.0 % |
| Extraordinary result | 22)* | –8,756 | 0.0 % | –72,407 | 0.0 % |
| **Profit before taxes** | | **22,376,692** | **4.1 %** | **15,137,382** | **2.8 %** |
| Income taxes | 23)* | –2,970,915 | –0.5 % | –2,113,154 | –0.4 % |
| **Net profit** | | **19,405,777** | **3.6 %** | **13,024,228** | **2.4 %** |
| **Attributable to:** | | | | | |
| Parent company shareholders | | 19,931,059 | 3.7 % | 13,521,507 | 2.5 % |
| Minority interests | | –525,282 | –0.1 % | –497,278 | –0.1 % |
| **Net profit** | | **19,405,777** | **3.6 %** | **13,024,228** | **2.4 %** |
| **Earnings per share (basic)** | 24)* | **14.12** | | **11.73** | |
| **Net profit per share (diluted)** | 24)* | **14.12** | | **11.73** | |

*Explanations in the notes

## Consolidated cash flow statement

| | 2016<br>CHF | 2015<br>CHF |
|---|---|---|
| | 1.1.16 – 31.12.16 | 1.1.15 – 31.12.15 |
| Net profit | 19,405,777 | 13,024,228 |
| Depreciation on fixed assets and amortisation of intangible assets | 10,896,237 | 10,309,136 |
| Net interest expense | 418,959 | 1,614,934 |
| Other non-cash adjustments | –873,568 | –303,443 |
| Change in short-term provisions | 0 | –474,139 |
| Change in long-term provisions | 2,882,025 | 983,570 |
| Accounting losses (profits) from sales of fixed assets | 4,227 | 50,362 |
| Income from associates and joint ventures | –520,525 | –334,780 |
| **Cash flow from operating activities before changes in working capital** | **32,213,132** | **24,869,868** |
| As % of net sales revenue | 5.94 % | 4.57 % |
| | | |
| Change in trade receivables | 6,204,177 | 8,658,497 |
| Change in trade receivables from related parties | –1,783,062 | –472,908 |
| Change in trade receivables from associated parties | –2,433,117 | 0 |
| Change in other short-term receivables | –1,507,476 | 512,121 |
| Change in inventories | –329,984 | –2,434,816 |
| Change in prepayments | 3,023,954 | –4,315,840 |
| Change in liabilities from deliveries and services | –7,844,725 | –11,022,126 |
| Change in other short-term liabilities | –3,179,281 | 8,115,991 |
| Change in other short-term liabilities to related parties | 309,938 | 1,500 |
| Change in deferred income | –447,022 | –4,901,153 |
| **Change in net current assets** | **–7,986,596** | **–5,858,735** |
| | | |
| **Cash flow from operating activities** | **24,226,536** | **19,011,133** |
| As % of net sales revenue | 4.47 % | 3.49 % |
| | | |
| Investments in fixed assets | –42,217,131 | –22,211,272 |
| Divestments of fixed assets | 532,655 | 65,845 |
| Investments in intangible assets | –945,822 | –761,912 |
| Investments in/divestments of long-term financial assets | –12,827 | –58,391 |
| Net cash flow from the purchase (-) / sale (+) of investments | –15,853,811 | 0 |
| Interest and dividends received | 750,945 | 218,807 |
| **Cash flow from investing activities** | **–57,745,991** | **–22,746,922** |
| | | |
| **Free cash flow** | **–33,519,455** | **–3,735,789** |
| As % of net sales revenue | –6.18 % | –0.69 % |

## Consolidated cash flow statement continued

| | 2016<br>CHF | 2015<br>CHF |
|---|---|---|
| | 1.1.16 – 31.12.16 | 1.1.15 – 31.12.15 |
| Change in short-term financial liabilities | 7,110,115 | –5,269,155 |
| Change in non-current financial liabilities | 58,109,487 | –31,382,797 |
| Additions/disposals of minority interests in capital and profit | 66,460 | 2,310,047 |
| Capital increase incl. premium from conversion of convertible bonds | 0 | 44,320,371 |
| Capital increase | –104,266 | 0 |
| Capital increase of subsidiaries due to currency effects | 7’597 | –27,192 |
| Sale (purchase) own shares net cash flow | –677,690 | –2,985,676 |
| Interest paid | –1,169,903 | –1,833,741 |
| Dividend payments | –5,211,195 | –4,133,157 |
| **Cash flow from financing activities** | **58,130,604** | **998,700** |
| | | |
| Currency translation | 73,525 | –619,345 |
| **Net change in cash and cash equivalents** | **24,684,674** | **–3,356,434** |
| | | |
| Cash and cash equivalents at 1 January | 43,023,224 | 46,379,658 |
| **Cash and cash equivalents at 31 December** | **67,707,898** | **43,023,224** |

**Consolidated statement of changes in equity**

| | Share capital | Own shares | Capital reserves | Retained earnings | Accumulated currency translation differences | Total excl. minority interests | Minority interests | Total incl. minority interests |
|---|---|---|---|---|---|---|---|---|
| | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF |
| **Equity as at 31.12.2014** | **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 | | | | | | | 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 | | | 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 from current period | | | | 13,521,507 | | 13,521,507 | –497,278 | 13,024,228 |
| **Equity as at 31.12.2015** | **14,347,600** | **–3,814,455** | **101,490,092** | **76,971,878** | **–4,409,878** | **184,585,237** | **8,203,186** | **192,788,423** |
| Change in the scope of consolidation | | | | | | 0 | 5,975,598 | 5,975,598 |
| Goodwill/Badwill from acquisition of shares of subsidiaries | | | | –165,988,827 | | –165,988,827 | | –165,988,827 |
| Allocation of capital contributions to free reserves | | | –5,308,612 | 5,308,612 | | 0 | | 0 |
| Capital increase | | | –104,266 | | | –104,266 | 40,000 | –64,266 |
| Acquisition of own shares | | –4,625,021 | | | | –4,625,021 | | –4,625,021 |
| Sale of own shares | | 3,293,664 | 653,668 | | | 3,947,331 | | 3,947,331 |
| Currency translation differences | | | | | –313,218 | –313,218 | –105,137 | –418,355 |
| Dividends | | | | –5,216,112 | | –5,216,112 | | –5,216,112 |
| Net profit from current period | | | | 19,931,059 | | 19,931,059 | –525,282 | 19,405,777 |
| **Equity as at 31.12.2016** | **14,347,600 1)** | **–5,145,813** | **96,730,882** | **–68,993,390 2)** | **–4,723,096** | **32,216,183** | **13,588,365** | **45,804,548** |

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 15 % of the votes.
2) Thereof non-distributable legal reserves TCHF 10,172 (previous year: TCHF 10,172).

| Shareholders >3 % | Share | Prior year |
|---|---|---|
| ZMP Invest AG, Lucerne | 12.37 % | 10.50 % |
| Weiss family and Innovent Holding AG, Wollerau | 5.35 % | 5.21 % |
| Stichting General Holdings, Amsterdam | 4.08 % | |
| Argos Investment Managers S.A., Geneva | | 3.90 % |

By signing the purchase agreement for Pharmalys, Mr Amir Mechria acquired conversion rights to a maximum of 430,000 shares or 29.97 % of current issued shares of HOCHDORF Holding Ltd and notified HOCHDORF Holding Ltd accordingly on 1.11.2016.

## Contingent capital

The Group has contingent capital in the nominal amount of CHF 7,173,800, corresponding to 717,380 registered shares at nominal CHF 10.

# Explanatory notes to the consolidated financial statements 2016 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 December 2016, 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 resulting exchange rate differences are shown in the income statement.

| | Income statement average exchange rates | | Balance sheet at end-of-year exchange rates | |
|---|---|---|---|---|
| | 2016 | 2015 | 31.12.2016 | 31.12.2015 |
| 1 EUR | 1.0900 | 1.0701 | 1.0720 | 1.0874 |
| 1 USD | 0.9888 | 0.9664 | 1.0164 | 1.0010 |
| 1 TND | 0.4598 | n.a. | 0.4418 | n.a. |
| 1 UYU | 0.0329 | 0.0356 | 0.0346 | 0.0346 |
| 1 ZAR | 0.0676 | 0.0755 | 0.0743 | 0.06460 |

## 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 31.12.2016 | Capital share 31.12.2016 | Capital share 31.12.2015 |
|---|---|---|---|---|---|---|
| HOCHDORF Holding Ltd | Hochdorf CH | Holding | CHF | 14,348 | 100 % | 100 % |
| HOCHDORF Swiss Nutrition Ltd | Hochdorf CH | Production | CHF | 30,000 | 100 % | 100 % |
| HOCHDORF Nutricare Ltd | Hochdorf CH | Trade | CHF | 1,200 | 100 % | 100 % |
| HOCHDORF Baltic Milk UAB | Medeikiai LT | Production and trade | EUR | 5,792 | 100 % | 100 % |
| HOCHDORF Swiss Whey Ltd | Hochdorf CH | Shell company | CHF | 100 | 100 % | 100 % |
| Switzerland. Milch-Gesellschaft Ltd | Hochdorf CH | Shell company | CHF | 100 | 100 % | 100 % |
| HOCHDORF Deutschland GmbH [1] | Siegburg DE | Trade | EUR | --- | --- | 100 % |
| Marbacher Ölmühle GmbH | Marbach DE | Production and trade | EUR | 2,000 | 100 % | 100 % |
| Uckermärker Milch GmbH | Prenzlau DE | Production | EUR | 10,000 | 60 % | 60 % |
| HOCHDORF Americas Ltd [2] | Montevideo UY | Trade | UYU | 3,283 | 60 % | 60 % |
| HOCHDORF South Africa Ltd | Cape Town ZA | Production | ZAR | 500 | 90 % | 90 % |
| Pharmalys Africa S.à.r.l. [3] | Tunis TU | Marketing | TND | 120 | 51 % | n.a. |
| Pharmalys Laboratories SA [4] | Hochdorf CH | Trade | CHF | 100 | 51 % | n.a. |
| Pharmalys Tunisie S.à.r.l. [5] | Sousse TU | Production | TND | 3,300 | 49 % | n.a. |

1) Liquidated.
2) Capital increase as at 12.8.2016 to UYU 3,283,200.
3) Formation on 30.11.2016.
4) Purchase of 51 % as of 19.12.2016.
5) Purchase of 49 % as of 19.12.2016 with contractual guarantee to purchase additional 2 % in 2017.

| Associated companies | Location | Function | Currency | Capital in thousand 31.12.2016 | Capital share 31.12.2016 | Capital share 31.12.2015 |
|---|---|---|---|---|---|---|
| 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 | Meitzendorf DE | Trade | EUR | 25 | 26 % | 26 % |

## Valuation methods

**General information**
The accounting is carried out based on the assumption of the continuation of the operational activities. 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 periodically.

**Cash and cash equivalents as well as securities without shareholding character**
Cash and cash equivalents include cash and deposits in postal and bank accounts. They are recognised at their nominal value. 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**
Raw materials, operational materials and auxiliary materials are measured at the lower of cost or market. Semi-finished and finished products are measured at production cost, including the direct material and production unit costs as well as material costs and production overheads. 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 times | 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 times | 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 and the reimbursements of customs calculated.

The consumption is measured in accordance with the first-expiry-date-first-out principle, meaning products with the shortest first-expiry date are sold first.

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 or 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. Permanent impairments are taken into account. Depreciation is calculated on a straight line basis from the purchase value. All acquisitions over a value of CHF 5,000 are deemed investments. Projects in process are capitalised as current investment projects and are not depreciated. Interests on assets under construction are not capitalised. Tangible assets are written down over the following periods of use:

| 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 financial 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. Securities are measured at purchase value less the economically necessary value adjustments.

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

**Short-term/long-term external capital**
Liabilities are measured 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**
The calculation of the provisions requires assumptions on the probability, amount and time of an outflow of cash. If an outflow of cash is likely and a reliable estimate is possible, a provision is reported.

**Income 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.

**Derivative financial instruments**
Derivative financial instruments are used to hedge risks in currencies, interest rates and commodities. The booking of derivative financial instruments depends on the hedged underlying transaction. Derivatives to hedge the changes in the value of an already reported underlying transaction are reported in accordance with the same valuation principles that are used for the hedged underlying transaction. Instruments for hedging future cash flows are not reported on the balance sheet, but rather disclosed in the Notes to the financial statements until the recognition of the future cash flow. When the future transaction or sale of the derivative occurs, the current value of the derivative financial instrument is reported and simultaneously recognised with the recognition of the hedged cash flow on the income statement. The derivative financial instruments open on the balance sheet date are disclosed in the Notes to the consolidated financial statements under «Other comments – Open derivative financial instruments».

**Employee pension plan**
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.

**Sales and revenue recognition**
Net sales include the receipt of economic benefits from the sale of goods and services within the scope of ordinary business activity during the reporting period. Reductions in revenue such as discounts, rebates and other price reductions as well as duties paid to third parties such as commissions, fees and any value-added taxes must be deducted from reported net sales. All inter-group turnover is eliminated in the consolidation process.

Turnover is booked when a Group company has transferred the definitive benefits and risks that are associated with ownership of the sold products and the power of disposal to the customer, and the ability to collect the receivables resulting from such is adequately secured. Turnover from the provision of services is reported in the accounting period in which the service was provided. The consideration of reductions in revenue for customers takes place in the same period as the turnover that caused these reductions in revenue in accordance with the terms and conditions of the order. The HOCHDORF Group does not have any brokerage transactions or business events with multiple, separate components.

### 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 organisations. Organisations that are controlled directly or indirectly by related parties are also considered to be related.

# Notes to the consolidated financial statement

The increase in the individual balance sheet items was mainly due to the change in the scope of consolidation as a result of the acquisition of Pharmalys Laboratories SA and Pharmalys Tunisie S.à.r.l, which were consolidated in the balance sheet for the first time as at 31 December 2016. This acquisition had no impact on the income statement.

## 1. Cash and cash equivalents

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

| TCHF | 2016 | 2015 |
|---|---|---|
| Cash | 8 | 7 |
| Post account | 9,370 | 8,477 |
| Bank account | 58,111 | 34,362 |
| Short-term investments | 219 | 177 |
| **Total** | **67,708** | **43,023** |

## 2. Accounts receivable

| TCHF | 2016 | 2015 |
|---|---|---|
| Trade receivables from third parties | 58,869 | 49,213 |
| ./. Provision for doubtful accounts | –1 | –194 |
| Short-term receivables from related parties | 8,421 | 2,600 |
| Trade receivables from associated companies | 2,393 | 0 |
| Other receivables | 5,625 | 4,121 |
| Other receivables from related parties | 41 | 0 |
| **Total** | **75,348** | **55,740** |

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

| TCHF | 2016 | 2015 |
|---|---|---|
| Raw materials, packaging materials, operating materials | 10,204 | 10,326 |
| Finished and semi-finished products, trade goods | 41,137 | 39,511 |
| Heating oil | 491 | 513 |
| Value adjustments for inventories | –2,050 | –1,370 |
| **Total** | **49,782** | **48,980** |

## 4. Accrued income

| TCHF | 2016 | 2015 |
|---|---|---|
| **As at 31 December** | **15,175** | **10,310** |

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. Tangible assets

| TCHF | 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 1.1.2015** | **61,840** | **25,088** | **44,325** | **5,865** | **1,405** | **13,884** | **152,407** |
| | | | | | | | |
| **Purchase value** | | | | | | | |
| **As at 1.1.2015** | **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 31.12.2015** | **149,357** | **56,698** | **141,445** | **17,929** | **2,426** | **8,115** | **375,970** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| **As at 1.1.2015** | **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 31.12.2015** | **76,946** | **29,563** | **86,511** | **11,968** | **1,268** | **0** | **206,256** |
| | | | | | | | |
| **Net accounting value as at 31.12.2015** | **72,411** | **27,135** | **54,934** | **5,961** | **1,158** | **8,115** | **169,714** |
| | | | | | | | |
| **Net accounting value as at 1.1.2016** | **72,411** | **27,135** | **54,934** | **5,961** | **1,158** | **8,115** | **169,714** |
| | | | | | | | |
| **Purchase value** | | | | | | | |
| **As at 1.1.2016** | **149,357** | **56,698** | **141,445** | **17,929** | **2,426** | **8,115** | **375,970** |
| Change in scope of consolidation [4] | 1,631 | 0 | 1,324 | 16 | 95 | 0 | 3,066 |
| Additions | 0 | 0 | 56 | 0 | 9 | 42,152 | 42,217 |
| Disposals | –256 | –160 | –2,729 | –210 | –24 | 0 | –3,379 |
| Reclassification [3] | 1,462 | 3,206 | 5,044 | 2,345 | 121 | –12,178 | 0 |
| Currency translation difference | –720 | –170 | –461 | –20 | –21 | –5 | –1,397 |
| **As at 31.12.2016** | **151,474** | **59,574** | **144,679** | **20,060** | **2,606** | **38,084** | **416,477** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| **As at 1.1.2016** | **76,946** | **29,563** | **86,511** | **11,968** | **1,268** | **0** | **206,256** |
| Reclassification [4] | 253 | 0 | 104 | 12 | 79 | 0 | 448 |
| Disposals | –130 | –82 | –2,434 | –179 | –17 | 0 | –2,842 |
| Depreciation | 2,262 | 2,433 | 4,053 | 1,350 | 288 | 0 | 10,386 |
| Currency translation difference | –296 | –113 | –320 | –5 | –14 | 0 | –748 |
| **As at 31.12.2016** | **79,035** | **31,801** | **87,914** | **13,146** | **1,604** | **0** | **213,500** |
| | | | | | | | |
| **Net accounting value as at 31.12.2016** | **72,439** | **27,773** | **56,765** | **6,914** | **1,002** | **38,084** | **202,977** |

1) The Group holds undevelopped parcels of land 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 Pharmalys Tunisie S.à.r.l.

### Of which assets subject to financial leasing

| TCHF | Total | Open instalments |
|---|---|---|
| **Net accounting value as at 1.1.2016** | **9,548** | **8,918** |
| | | |
| **Purchase value** | | |
| **As at 1.1.2016** | **9,900** | **8,918** |
| Additions | 0 | 0 |
| Disposals of instalments | 0 | –1,901 |
| Currency translation difference | –10 | –5 |
| **As at 31.12.2016** | **9,890** | **7,012** |
| | | |
| **Accumulated depreciation** | | |
| **As at 1.1.2016** | **352** | **0** |
| Depreciation | 564 | 0 |
| Currency translation difference | –4 | 0 |
| **As at 31.12.2016** | **912** | **0** |
| | | |
| **Net accounting value as at 31.12.2016** | **8,978** | **7,012** |

## 6. Associated companies

| Associated companies | Location | Function | Currency | Capital in thousand 31.12.2016 | Shareholdings 31.12.2016 TCHF | Capital share 31.12.2015 TCHF |
|---|---|---|---|---|---|---|
| Ostmilch Handels GmbH | Bad Homburg DE | Trade | EUR | 1,000 | 2,670 | 2,291 |
| Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG | Schlegel DE | Logistics | EUR | 51 | 141 | 38 |
| Ostmilch Frischdienst Magdeburg GmbH | Meitzendorf DE | Trade | EUR | 25 | 87 | 48 |
| | | | | | 2,898 | 2,377 |

## 7. Financial assets

| TCHF | 2016 | 2015 |
|---|---|---|
| Securities | 30 | 30 |
| Deferred tax assets | 1,273 | 544 |
| Assets from employer contribution reserves | 7,899 | 7,726 |
| **Total** | **9,202** | **8,300** |

The deferred tax assets result from existing carried forward losses in the tax balance sheet. The increase comes primarily from the negative results of Uckermärker Milch GmbH and HOCHDORF Baltic Milk UAB.

### Taxable losses carried forward after expiration

| TCHF | 2016 | 2015 |
|---|---|---|
| 2023 and later | 4,490 | 1,420 |
| **Total** | **4,490** | **1,420** |

## Pension plans

| TCHF<br>Employer contribution reserve | Nominal value<br>31.12.2016 | Renounced use<br>31.12.2016 | Balance sheet<br>31.12.2016 | Provision per<br>2016 | Balance sheet<br>31.12.2015 | Result of the committee of works and staff councils in personnel expenses<br>2016 | <br>2015 |
|---|---|---|---|---|---|---|---|
| HGR pension fund | 7,899 | 0 | 7,899 | 173 | 7,726 | 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 2016 (previous year 2.25 %).

| TCHF<br>Economic benefit/economic liability<br>and pension expenditure | Credit/debit balance<br>31.12.2016 | Economic share of the organisation<br>31.12.2016 | <br>31.12.2015 | Change compared to prior year | Amounts accrued for the period | Pension expenditure in personnel expenses<br>2016 | <br>2015 |
|---|---|---|---|---|---|---|---|
| HGR pension fund | 16,650 | 0 | 0 | 0 | 1,837 | 1,837 | 1,771 |

## 8. Intangible assets 1)

| TCHF | Software | Other intangible assets | Total |
|---|---|---|---|
| **Net accounting value as at 1.1.2015** | **1,549** | | **1,549** |
| | | | |
| **Purchase value** | | | |
| **As at 1.1.2015** | **1,927** | | **1,927** |
| Additions | 761 | | 761 |
| Disposals | –45 | | –45 |
| **As at 31.12.2015** | **2,643** | | **2,643** |
| | | | |
| **Accumulated depreciation** | | | |
| **As at 1.1.2015** | **378** | | **378** |
| Depreciation | 337 | | 337 |
| Currency translation difference | –23 | | –23 |
| **As at 31.12.2015** | **692** | | **692** |
| **Net accounting value as at 31.12.2015** | **1,951** | | **1,951** |
| | | | |
| **Net accounting value as at 1.1.2016** | **1,951** | | **1,951** |
| | | | |
| **Purchase value** | | | |
| **As at 1.1.2016** | **2,643** | **0** | **2,643** |
| Additions | 246 | 700 | 946 |
| Disposals | –1 | | –1 |
| Currency translation difference | –9 | | –9 |
| **As at 31.12.2016** | **2,879** | **700** | **3,579** |
| | | | |
| **Accumulated depreciation** | | | |
| **As at 1.1.2016** | **692** | **0** | **692** |
| Disposals | 0 | | 0 |
| Depreciation | 494 | 16 | 510 |
| Currency translation difference | –7 | | –7 |
| **As at 31.12.2016** | **1,179** | **16** | **1,195** |
| | | | |
| **Net accounting value as at 31.12.2016** | **1,700** | **684** | **2,384** |

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

| TCHF | 2016 | 2015 |
|---|---|---|
| To third parties | 57,729 | 51,466 |
| To related parties | 446 | 1,406 |
| To associated companies | 380 | 0 |
| **Total** | **58,555** | **52,872** |

## 10. Short-term financial liabilities

| TCHF | 2016 | 2015 |
|---|---|---|
| Other financial liabilities | 91 | 24 |
| To related parties [1)] | 54,300 | 0 |
| Leasing liabilities | 1,945 | 1,901 |
| Bank loans [2)] | 7,097 | 0 |
| **Total** | **63,433** | **1,925** |

1) Including purchase price debt of CHF 45.8 million in connection with the acquisition of the Pharmalys companies. Additionally, this position includes an outstanding dividend payment to the former owner of the Pharmalys companies.

2) Uckermärker has its own credit line for EUR 10 million, of which EUR 6.5 million had been used as of the closing date.

## 11. Other short-term liabilities

| TCHF | 2016 | 2015 |
|---|---|---|
| Other short-term liabilities | 4,565 | 8,998 |
| Employee overtime | 193 | 219 |
| Employee holiday credits | 536 | 493 |
| Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc.) | 4,288 | 3,685 |
| Government bodies (taxes, source taxes) | 3,202 | 678 |
| **Total** | **12,784** | **14,073** |

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 deferred income

| TCHF | 2016 | 2015 |
|---|---|---|
| **As at 31 December** | **4,652** | **5,095** |

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).

## 13. Non-current financial liabilities

| TCHF | 2016 | 2015 |
|---|---|---|
| Mortgages, loans [1] | 429 | 425 |
| Leasing liabilities | 5,098 | 7,017 |
| Bank loans | 115,205 | 55,000 |
| To related parties [2] | 105,500 | 0 |
| **Total** | **226,232** | **62,442** |

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

2) Purchase price debt in connection with the purchase of the Pharmalys companies.

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

| Position | Book value TCHF | Due date | Interest rate |
|---|---|---|---|
| Syndicated loan | 115,000 | 30.6.2021 | from 0.60 % to 2.50 % |
| Bank loans | 7,302 | >2020 | from 1.50 % to 7.11 % |
| Geiger loan | 429 | >2020 | from 2.02 % to 3.83 % |
| Short-term leasing | 1,945 | 2017 | from 1.85 % to 9.64 % |
| Long-term leasing | 5,098 | 2018/2020 | from 1.85 % to 9.64 % |
| Other current liabilities | 91 | 2017 | from 6.39 % to 7.97 % |
| To related parties | 159,800 | 2017/2018 | No interest |
| **Total** | **289,665** | | |

The financial liabilities are recorded at nominal value and valued.

## 14. Provisions

| TCHF<br>Development of provisions | Short-term provisions | Damages claims | Deferred tax provisions | Total |
|---|---|---|---|---|
| **As at 31.12.2014** | **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 |
| Provisions released | 0 | –190 | –2 | –192 |
| Currency translation differences | 0 | –131 | –568 | –699 |
| **As at 31.12.2015** | **0** | **105** | **11,095** | **11,200** |
| Provisions made (with effect on net income) | 0 | 80 | 3,044 | 3,124 |
| Provisions used | 0 | 0 | 0 | 0 |
| Provisions released | 0 | –104 | –134 | –238 |
| Currency translation differences | 0 | –1 | –71 | –72 |
| **As at 31.12.2016** | **0** | **80** | **13,934** | **14,014** |

# 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).

## 15. Sales of products

### By product groups

| TCHF | 2016 | | 2015 | |
|---|---|---|---|---|
| Milk products/cream | 233,060 | 42.30 % | 225,290 | 40.91 % |
| Milk powder | 166,307 | 30.19 % | 190,062 | 34.52 % |
| Infant formula | 122,126 | 22.17 % | 110,217 | 20.01 % |
| Specialities/wheat germ | 14,148 | 2.57 % | 12,061 | 2.19 % |
| Bakery/confectionary goods | 4,996 | 0.90 % | 6,260 | 1.14 % |
| Remaining products/services | 10,289 | 1.87 % | 6,765 | 1.23 % |
| **Total** | **550,926** | **100.00 %** | **550,655** | **100.00 %** |

### By region

| TCHF | 2016 | | 2015 | |
|---|---|---|---|---|
| Switzerland/Liechtenstein | 199,718 | 36.25 % | 210,302 | 38.19 % |
| Europe | 234,749 | 42.61 % | 243,255 | 44.18 % |
| Asia | 25,253 | 4.58 % | 23,611 | 4.29 % |
| Middle East/Africa | 82,670 | 15.01 % | 62,438 | 11.34 % |
| USA/Canada | 321 | 0.06 % | 0 | 0.00 % |
| Americas (others) | 5,507 | 1.00 % | 1,560 | 0.28 % |
| Rest [1)] | 2,708 | 0.49 % | 9,489 | 1.72 % |
| **Total** | **550,926** | **100.00 %** | **550,655** | **100.00 %** |

1) 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 suppliers. The suppliers (milk producers) are organised within several milk producer organisations. On the processing side, the market is dominated 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

| TCHF | 2016 | 2015 |
|---|---|---|
| Various remaining revenue | 551 | 553 |
| **Total** | **551** | **553** |

The various remaining revenue includes the renting of office and production space as well as private shares from employees for the use of vehicles as larger positions.

## 17. Reductions in proceeds

| TCHF | 2016 | 2015 |
|---|---|---|
| Discounts, contingency reserves, accounts receivable losses [1)] | –280 | –294 |
| Reimbursements («Schoggi Law»), rebates | –8,611 | –6,719 |
| Various reductions in proceeds [2)] | –429 | 46 |
| **Total** | **–9,320** | **–6,967** |

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

| TCHF | 2016 | 2015 |
|---|---|---|
| Wages | –38,891 | –37,561 |
| Social contributions | –6,141 | –5,845 |
| Incidental wage costs incl. temporary staff | –2,764 | –2,821 |
| **Total** | **–47,796** | **–46,227** |

## 19. Other operating expenses

| TCHF | 2016 | 2015 |
|---|---|---|
| Facilities expenditure (incl. warehouse rents) | –4,879 | –4,754 |
| Maintenance, repairs | –8,381 | –7,895 |
| Vehicle and transport | –7,625 | –7,226 |
| Insurance, fees, duties | –1,232 | –1,308 |
| Energy and disposal expenditure | –16,904 | –18,066 |
| Administration and IT expenditure | –4,029 | –4,722 |
| Advertising costs incl. commissions to customers | –6,804 | –4,687 |
| Various other operating costs | –5,767 | –4,800 |
| **Total** | **–55,621** | **–53,458** |

## 20. Financial result

| TCHF | 2016 | 2015 |
|---|---|---|
| Interests from cash and cash equivalents | 0 | 1 |
| Revenues from holdings and financial assets incl. associated parties | 1,660 | 723 |
| Other financial revenue | 25 | 19 |
| **Total financial revenue** | **1,685** | **743** |
| | | |
| Interest costs | –1,170 | –1,834 |
| Deposit fees, fees | –144 | –29 |
| Exchange rate losses | –419 | –3,776 |
| **Total financial costs** | **–1,733** | **–5,639** |
| **Total** | **–48** | **–4,896** |

## 21. Non-operating result

| TCHF | 2016 | 2015 |
|---|---|---|
| Revenue from external properties | –31 | –40 |
| **Total** | **–31** | **–40** |

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 result

| TCHF | 2016 | 2015 |
|---|---|---|
| Profit from the disposal of operational fixed assets | –4 | –6 |
| Exceptional expenditure | –5 | –66 |
| **Total** | **–9** | **–72** |

## 23. Taxes

| TCHF | 2016 | 2015 |
|---|---|---|
| **Current income taxes** | | |
| Taxes on operating result | –667 | –679 |
| | | |
| **Deferred income taxes** | | |
| Net change in deferred tax assets and liabilities | –2,304 | –1,434 |
| **Total** | **–2,971** | **–2,113** |

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 13.28 % (previous year: 13.96 %).

Capital taxes are reported separately in operating costs. 2015 and years before have been definitively assessed for the Swiss companies. The companies abroad have been provisionally assessed.

## 24. Earnings per share

### Company results per share, basic

| | 2016 | 2015 |
|---|---|---|
| Weighted average shares outstanding | 1,411,425 | 1,152,439 |
| Company result before minority interests | 19,931,059 | 13,521,507 |
| **Company earnings per share in CHF, basic** | **14.12** | **11.73** |

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.

No convertible bonds are outstanding in the year under review. Therefore, there was no dilution effect.

## 25. Own shares

### HOCHDORF Group pension fund

| | 2016 Number | 2015 Number |
|---|---|---|
| Registered shares of HOCHDORF Holding Ltd | 18,000 | 25,000 |
| **Total** | **18,000** | **25,000** |

### Transactions with own shares

| | 2016 | 2015 |
|---|---|---|
| **Balance as of 1.1. in units** | **24,000** | **5,143** |
| At the average price per share of CHF | 158.94 | 136.73 |
| Purchases in units | 21,353 | 44,708 |
| At the average price per share of CHF | 216.60 | 148.04 |
| Sales in units | –20,981 | –25,851 |
| At the average price per share of CHF | 188.14 | 140.54 |
| | | |
| **Balance as of 31.12. in units** | **24,372** | **24,000** |
| At the average price per share of CHF | 211.14 | 158.94 |

# Further notes

### Unsettled derivative financial instruments

| Exchange rate instruments | Value changes | 2016 Asset values | 2016 Liability values | Purpose | Value change | 2015 Asset values | 2015 Liability values | Purpose |
|---|---|---|---|---|---|---|---|---|
| Interest rate swaps | 0 | 0 | 0 | Hedging | 31 | 0 | 0 | Hedging |
| Forward exchange contracts | 120 | 0 | 0 | Hedging | –120 | 0 | –120 | Hedging |
| **Total assets and liability values** | **120** | **0** | **0** | | **–89** | **0** | **–120** | |

The market values of forward exchange contracts to hedge future cash flows are not reported on the balance sheet, similar to the underlying transaction. The corresponding profit from the derivative is reported on the income statement at the time the hedged transaction occurs. There were no forward exchange contracts as of balance sheet date.

### Leasing debts

| TCHF | 2016 | 2015 |
|---|---|---|
| Unrecognised leasing debts | 7 | 54 |
| **Total** | **7** | **54** |

### Liabilities from pension fund

| TCHF | 2016 | 2015 |
|---|---|---|
| HOCHDORF Group pension fund | 308 | 305 |
| **Total** | **308** | **305** |

### Acquisitions

On 19 December 2016, in connection with the strategic development of the Baby Care division, HOCHDORF Holding Ltd acquired 51 % of the shares in Pharmalys Laboratories SA with registered office in Hochdorf, for CHF 170.9 million and thus acquired control. The company does business in the sale of infant formula in the Middle East, North Africa and Asia.

The acquired net assets are as follows:

| TCHF | Total |
|---|---|
| Cash and cash equivalents | 4,891 |
| Trade receivables | 15,122 |
| Short-term receivables from related parties | 4,035 |
| Other short-term receivables | 7 |
| Other short-term receivables from related parties | 41 |
| Inventories | 616 |
| Prepayments and accrued income | 7,890 |
| Trade payables | –13,216 |
| Other short-term liabilities | –8,105 |
| Short-term provisions | –1,649 |
| Accrued liabilities and deferred income | –18 |
| **Identified net assets** | **9,614** |
| Goodwill | 166,008 |
| **Net assets incl. Goodwill** | **175,622** |
| Less minority interests | –4,711 |
| **Provisional purchase price** | **170,911** |

On 19 December 2016, in connection with the strategic development of the Baby Care division, HOCHDORF Holding Ltd acquired 49 % of the shares in Pharmalys Tunisie S.à.r.l. with registered office in Kondar, Tunisia, for CHF 1.2 million with the contractual obligation to acquire another 2 % of the shares in 2017 and thus acquire control. The company does business in the packaging and sale of infant formula in the Middle East and North Africa.

The acquired net assets are as follows:

| TCHF | Total |
|---|---|
| Cash and cash equivalents | 192 |
| Trade receivables | 1,170 |
| Property, plant | 1,325 |
| Other fixed assets | 1,191 |
| Trade payables | –901 |
| Short-term financial liabilities | –225 |
| Other short-term liabilities | –4 |
| Other short-term liabilities from related parties | –93 |
| Accrued liabilities and deferred income | –2 |
| Long-term financial liabilities | –225 |
| **Identified net assets** | **2,428** |
| Badwill | –19 |
| **Net assets incl. Badwill** | **2,409** |
| Less minority interests | –1,238 |
| **Provisional purchase price** | **1,171** |

The purchase price is calculated on the basis of the average EBIT in 2016 and 2017 for Pharmalys Laboratories SA and Pharmalys Tunisie S.à.r.l. multiplied by a factor of 14. In addition to this, there is a one-off upside compensation of CHF 28 – 36 million for the increase in the value of the shares of HOCHDORF Holding Ltd from the signing of the Memorandum of Understanding through 24 October 2016. The purchase price is thus variable and will be set definitively as of 31 March 2018. There may still be deviations from this as a result. The final purchase price shall be between CHF 160 and CHF 190 million on the basis of the forecasts at this time and will also include external advisory costs in connection with the transaction.

An amount of CHF 20 million of the total purchase price to be paid was transferred in cash by 31 December 2016. As of 30 March 2017, another advance payment of CHF 45.8 million is to be made in the form of Mandatory Convertible Securities (MCS) from Tranche B of the paid-in convertible bonds in March 2017. The remaining, definitive total purchase price is to be paid partially in MCS and in cash on 30 March 2018.

**Pharmalys Laboratories SA – Exit**

In accordance with the Shareholders' Agreement of 19 December 2016 between the minority shareholder and HOCHDORF, both parties are forbidden until 19 December 2020 – without the consent of the other party – from transferring their shares in Pharmalys Laboratories SA or from establishing any rights to these shares. After the end of this period, the shares are subject to a mutual right of first offer or pre-emptive right.

In the event that the minority shareholder wants to transfer their shares and HOCHDORF does not exercise its right of first offer or pre-emptive right, the parties shall endeavour to jointly seek an alternative solution for the exit of the minority shareholder within three years (e.g. by staggered sale to HOCHDORF, sale to a third party, IPO).

If no exit is achieved for the minority shareholder within three years, this shareholder has the right (put option) to sell its shares over a period of five years in five tranches to HOCHDORF. HOCHDORF can acquire the shares itself or have them acquired by a third party. The individual tranches may not be more than 12 % of the respectively issued share capital of Pharmalys Laboratories SA.

If HOCHDORF cannot acquire the shares in Pharmalys Laboratories SA as offered by the minority shareholder, the minority shareholder has the right (call option) to acquire from HOCHDORF as many shares in Pharmalys Laboratories SA as necessary to hold a majority of the shares (51 %) (again). If a majority of the shares are acquired by the minority shareholder, HOCHDORF can ask the minority shareholder to sell its majority stake together with the minority stake of HOCHDORF to a third party (so-called drag-along right).

### Goodwill offset against equity

#### Purchase costs

| TCHF | 2016 | 2015 |
|---|---:|---:|
| As at 1 January | 3,088 | 3,088 |
| Additions | 166,008 | 0 |
| **As at 31 December** | **169,096** | **3,088** |

#### Accumulated depreciation

| TCHF | 2016 | 2015 |
|---|---:|---:|
| As at 1 January | –999 | –382 |
| Additions | –618 | –617 |
| **As at 31 December** | **–1,617** | **–999** |
| **Theoretical price as at 31 December** | **167,479** | **2,089** |

The acquisitions in the reporting year resulted in goodwill of TCHF 166,008. This is shown based on a linear amortisation over 5 years (pro rata). Badwill generated is not taken into account in these explanatory remarks. The statement of changes in shareholders' equity shows goodwill as a net position.

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

| TCHF | 2016 | 2015 |
|---|---:|---:|
| Group result | 19,406 | 13,024 |
| Goodwill amortisations | –618 | –617 |
| **Theoretical company results** | **18,788** | **12,407** |

| TCHF | 2016 | 2015 |
|---|---:|---:|
| Equity | 45,805 | 192,788 |
| Theoretical goodwill | 167,479 | 2,089 |
| **Theoretical equity** | **213,284** | **194,877** |

### 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 2016 and 2015. These cover deliveries of goods and raw materials as well as services to and from related companies.

#### Transactions with associated companies

| TCHF | 2016 | 2015 |
|---|---|---|
| Net sales | 69,395 | 81,988 |
| Cost of goods | –6,647 | –53,799 |
| Service revenue | 0 | 23 |
| Service costs | –498 | –544 |
| Other expenses | –182 | 0 |
| Financial revenue | 9 | 5 |
| Financial expenses | –11 | –33 |

#### Transactions with related companies

| TCHF | 2016 | 2015 |
|---|---|---|
| Net sales | 5,603 | 11,064 |
| Cost of goods | –627 | –576 |
| Service revenue | 66 | 32 |
| Service costs[1)] | –1,837 | –1,771 |
| Financial revenue | 17 | 32 |
| Financial expenses | –3 | –12 |

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**
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 HOCHDORF Group has an implemented risk management system for all Group companies.

Starting with the identification of risks, the main risks for the company are assessed and measured in regard to their likelihood of occurrence and impact. Appropriate measures are defined and their implementation checked periodically. Each member of the Group Management is responsible for the implementation of the measures in their area of responsibility. The Board of Directors is notified periodically of important changes in the risk assessment.

**Risk assessment**
In this year's risk assessment, management views the greatest risks to be in the areas of political framework conditions (country risk, food legislation, the «Schoggi Law»), dependency on the processing industry and sales partners as well as fluctuations in revenue.

The HOCHDORF Group is exposed to various financial risks due to its business activity. These include currency, interest and credit risks.

The HOCHDORF Group generates revenues and profits in foreign currencies in Switzerland and abroad. Changes in the exchange rate will have an impact on the consolidated results for this reason. In order to limit these risks, the concept of «natural hedging» is applied as the primary hedging strategy. The foreign currency risk from the inflow of money in a certain currency is neutralised by cash outflows in the same currency. For this reason, currency fluctuations only affect the margins of the Group to a limited extent, i.e. the Group is exposed to a relatively low transaction risk. Periodically, it is analysed whether there is a gap due to the «natural hedging». The analysis is discussed with the Group Management and it is decided whether any gaps need to be hedged with derivative instruments.

The translation risk due to the translation of profits/losses generated/incurred abroad can affect the Group results, despite the effective «natural hedging», if there are significant fluctuations in currency. Translation risks are not hedged by the Group.

Since the Group does not have significant interest-generating assets apart from bank deposits, the Group's income is mainly independent of changes in current interest rates. The Group's interest rate risk comes from foreign financing. The Group is subject to changes in current interest rates due to the loans. Furthermore, interest rates based on the framework loan agreement for the Group depend on the ratio of net debt to EBITDA and on the equity ratio of the Group and on LIBOR.

The risk management in the area of credit risks is handled by ongoing monitoring of the credit limits and by means of external credit insurance.

### Internal control system
The internal control system (ICS) is expanded and improved continuously. It is intended for ongoing optimisation of the business activities and has the goal of ensuring the necessary processes and instruments for identifying and controlling risks. The system complies with the statutory requirements in Switzerland and is satisfactory for the needs of a company the size of HOCHDORF. The ICS for the HOCHDORF Group was developed on the basis of the COSO framework. Besides the controls related to complying with the strategic and operating objectives and compliance with the rules, the ICS was primarily designed for risks related to financial reporting in all Group companies. The compliance and effectiveness of the ICS is usually checked in the internal audit. In 2016, the focal point of the audit was on the processes in the purchase of milk and in the area of IT security. Furthermore, the external auditors undertake adequate audit procedures in order to assess whether there is an ICS. They confirm this in their audit report.

### Internal Audit
In 2016, the Internal Audit was outsourced and handled by PricewaterhouseCoopers with support provided by experts in the Finance and Accounting Department. The Internal Audit supports the Board of Directors in the handling of its monitoring and controlling tasks, particularly at the subsidiaries. Internal Audit provides an independent and objective audit and advisory service that is focused on generating added value and improving business processes. It helps the company to achieve its goals by assessing the effectiveness of the risk management, the controls and the management and monitoring processes with a systematic and targeted approach and by improving them.

Internal Audit works with the Audit Committee to prepare a strategic audit plan at regular intervals, which is presented to the Board of Directors for approval in each case. On the basis of the multi-year plan, Internal Audit develops an operating audit plan that details the planned audits over the next year. This plan is presented to the Audit Committee for approval. Furthermore, the Board of Directors can give special orders to Internal Audit.

After completing each audit, Internal Audit prepares a written audit report. It contains the findings and recommendations made by Internal Audit as well as the statement by Management containing the planned measures and the time required for the completion of these measures. Group Management checks the implementation of the defined measures and continuously provides orientation for the Audit Committee.

Internal Auditors did not take part in any meetings of the Board of Directors or in any meetings of the Audit Committee in the reporting year. External Audit receives information about the audit plan and the audit activities of Internal Audit as well as the audit reports. Internal Audit may view the reports of External Audit.

## 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 2016 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 10 March 2017.

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 10 March 2017

## 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 statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes (pages 60 to 86) to the consolidated financial statements, for the year ended 31 December 2016.

**Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the 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 2016 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 key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

## Revenue recognition

**Audit matter**

The group applies different delivery terms (Incoterms) in their deliveries of goods to customers. This means that the risks and rewards of ownership are not always transferred to the customer at the same time, with deliveries shortly before the balance sheet date having an increased risk of the revenue not being recognized in the correct period. Furthermore, in accordance with Swiss Auditing Standards, we take the risk of fraud into account when determining our audit approach.

The accounting principles for the recognition of revenue are disclosed in the notes to the consolidated financial statements. Income from the sale of goods and services is described in detail in note 15.

**Our audit response**

In our audit of revenue recognition, we gained an understanding of the relevant processes. In addition, we identified internal controls in the area of revenue/goods delivery, assessed their design and tested their effectiveness.

Moreover, shortly before the balance sheet date, we performed sample tests on the deliveries of goods with regard to the correctness of revenue allocation on the basis of contracts, calculations and delivery terms.

## Valuation of inventories

**Audit matter**

Inventory is a significant part of the assets of the HOCHDORF Group. As a result of its perishable nature and limited shelf life, the group's inventory is subject to an increased risk. Moreover, inventory valuation is complex and requires a high degree of manual input.

The accounting principles for the inventory is disclosed in the notes to the consolidated financial statements. Detailed information on the inventory is included in note 3.

**Our audit response** We gained an understanding of the inventory valuation process and tested the internal controls of this process. Furthermore, we reviewed the inventory valuation on the basis of a representative sample size. In so doing, we determined that inventory was up-to-date and recognized at the lower of acquisition / production cost and market value (lower cost or market principle).

## Acquisitions

**Audit matter** On 19 December 2016, the group acquired 51 % of Pharmalys Laboratories SA and 49 % of Pharmalys Tunisie S.à.r.l. and, with the transfer of control, included them in the consolidated financial statements of the HOCHDORF Group.

For one thing, the acquired assets and liabilities represent a significant part of the balance sheet of the HOCHDORF Group; for another, the acquisition has implications on a number of disclosures in the notes. Moreover, these acquisitions are unusual transactions for the group, for which there are no standard procedures, and the recognition of the acquired companies in the consolidated financial statements of the HOCHDORF Group requires manual input. What is more, by definition, a certain degree of judgment is involved in the purchase price allocation of any acquisition. This includes determining the fair value of the acquired assets and liabilities, and therefore also of goodwill. The Pharmalys transaction also necessitated an estimate of the purchase price, since the latter depends on future income.

The acquisition is described under «Further notes» in the consolidated financial statements of the HOCHDORF Group.

**Our audit response** We had the management assumptions and estimates based on which the purchase price is determined and allocated explained to us. We also assessed the applied judgments, the valuation of assets and liabilities at fair value, the determination of goodwill as well as the disclosures in the notes to the consolidated financial statements.

**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 para. 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<br>Licensed audit expert<br>(Auditor in charge) | Roman Ottiger<br>Licensed audit expert |

## HOCHDORF Holding Ltd

### Balance sheet as at 31 December

| | 2016 CHF | In % | 2015 CHF | In % |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets and short-term assets with market price | 44,338,294 | 10.3 % | 20,450,155 | 9.4 % |
| Trade receivables | | | | |
| – to third parties | 1,077 | 0.0 % | 0 | 0.0 % |
| – to shareholdings | 520,949 | 0.1 % | 469,063 | 0.2 % |
| Other short-term receivables | | | | |
| – to third parties | 71,145 | 0.0 % | 1,997 | 0.0 % |
| **Current assets** | **44,931,466** | **10.5 %** | **20,921,214** | **9.6 %** |
| Loans to holdings | 130,312,578 | 30.4 % | 115,089,304 | 53.0 % |
| Shareholdings | 253,461,394 | 59.1 % | 81,330,553 | 37.4 % |
| **Fixed assets** | **383,773,971** | **89.5 %** | **196,419,856** | **90.4 %** |
| **Total assets** | **428,705,437** | **100.0 %** | **217,341,071** | **100.0 %** |
| **Liabilities** | | | | |
| **Short-term external capital** | | | | |
| Trade payables | | | | |
| – to third parties | 255,281 | 0.1 % | 0 | 0.0 % |
| Other short-term liabilities | | | | |
| – to third parties | 278,513 | 0.1 % | 738,560 | 0.3 % |
| – to related parties (non-interest bearing) | 45,800,000 | 10.7 % | 1,500 | 0.0 % |
| **Long-term external capital** | | | | |
| Long-term interest-bearing payables | | | | |
| – to third parties | 115,000,000 | 26.8 % | 55,000,000 | 25.3 % |
| – to shareholdings | 924,562 | 0.2 % | 194,787 | 0.1 % |
| – to related parties (non-interest bearing) | 105,500,000 | 24.6 % | 0 | 0.0 % |
| **Total external capital** | **267,758,356** | **62.5 %** | **55,934,847** | **25.7 %** |
| Share capital | 14,347,600 | 3.3 % | 14,347,600 | 6.6 % |
| Statutory capital reserves (capital investments) | 72,863,792 | 17.0 % | 78,276,670 | 36.0 % |
| General statutory retained earnings | 10,172,000 | 2.4 % | 10,172,000 | 4.7 % |
| Voluntary retained earnings | 20,347,588 | 4.7 % | 20,347,588 | 9.4 % |
| Balance sheet profit | | | | |
| – profit carried forward | 42,135,022 | 9.8 % | 38,648,415 | 17.8 % |
| – profit for the period | 6,097,514 | 1.4 % | 3,394,107 | 1.6 % |
| Own shares | –5,016,434 | –1.2 % | –3,780,157 | –1.7 % |
| **Shareholders' equity** | **160,947,081** | **37.5 %** | **161,406,223** | **74.3 %** |
| **Total liabilities** | **428,705,437** | **100.0 %** | **217,341,071** | **100.0 %** |

## HOCHDORF Holding Ltd

### Income statement

| | 2016<br>CHF | 2015<br>CHF |
|---|---|---|
| | 1.1.16 – 31.12.16 | 1.1.15 – 31.12.15 |
| Income from equity investments | 4,625,004 | 5,368,945 |
| Other financial revenue | 4,055,927 | 4,312,296 |
| Other operating income | 0 | 201,550 |
| **Total income** | **8,680,931** | **9,882,791** |
| Financial expenses | –2,103,804 | –6,267,745 |
| Other operating expenses | –315,606 | –220,939 |
| Direct taxes | –164,007 | 0 |
| **Total expenses** | **–2,583,417** | **–6,488,684** |
| **Net profit for the year** | **6,097,514** | **3,394,107** |

**HOCHDORF Holding Ltd**

# Notes to the financial statements 2016

Information in accordance with article 959c et seqq. CO

**1. Company, name, registered office**
HOCHDORF Holding Ltd, Siedereistrasse 9, 6280 Hochdorf LU
The holding does not have any staff.

**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.

### Cash and cash equivalents
Cash and cash equivalents include cash and deposits on postal and bank accounts. They are recognised 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.

### 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 financial income or expense.

## 3. Information on balance sheet and income statement items

### 3.1. Shareholdings

| | Purpose | Currency | Capital in 1,000 31.12.2016 | Capital in 1,000 31.12.2015 | Capital and voting share 31.12.2016 | Capital and voting share 31.12.2015 | |
|---|---|---|---|---|---|---|---|
| Switzerland. Milch-Gesellschaft Ltd, Hochdorf | Inactive | CHF | 100 | 100 | 100 % | 100 % | |
| HOCHDORF Swiss Nutrition Ltd, Hochdorf | Production | CHF | 30,000 | 30,000 | 100 % | 100 % | |
| HOCHDORF Nutricare Ltd, Hochdorf | Trade | CHF | 1,200 | 1'200 | 100 % | 100 % | |
| HOCHDORF Swiss Whey Ltd, Hochdorf | Inactive | CHF | 100 | 100 | 100 % | 100 % | |
| HOCHDORF Baltic Milk UAB, LT-Medeikiai | Production | EUR | 5,792 | 5,792 | 100 % | 100 % | |
| HOCHDORF Deutschland GmbH in liquidation DE-Siegburg | Trade | EUR | --- | 200 | --- | 100 % | 1) |
| Marbacher Ölmühle GmbH, DE-Marbach | Production | EUR | 2,000 | 2,000 | 100 % | 100 % | |
| Uckermärker Milch GmbH, DE-Prenzlau | Production | EUR | 10,000 | 10,000 | 60 % | 60 % | |
| 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 | 25 | 26 % | 26 % | |
| HOCHDORF America's Ltd, UY-Montevideo | Trade | UYU | 3,283 | 72 | 60 % | 60 % | 2) |
| HOCHDORF South Africa Ltd, SA-Cape Town | Production | ZAR | 500 | 500 | 90 % | 90 % | |
| Pharmalys Africa S.à.r.l., TN-Tunis | Administration | TND | 120 | n.a. | 51 % | n.a. | 3) |
| Pharmalys Laboratories SA, Hochdorf | Trade | CHF | 100 | n.a. | 51 % | n.a. | 4) |
| Pharmalys Tunisie S.à.r.l., TN-Sousse | Production | TND | 3,300 | n.a. | 49 % | n.a. | 5) |

1) Liquidation completed at the end of 2016.
2) Capital increase of UYU 72,000 to UYU 3,283,200 as of 12.8.2016.
3) Formation on 30.11.2016.
4) Purchase of 51 % as of 19.12.2016.
5) Purchase of 49 % as of 19.12.2016 with contractual guarantee to purchase additional 2 % in 2017.

### 3.2. Short-term liabilities

| TCHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Third-party performances | 255 | 0 |
| Other (government bodies) | 279 | 0 |
| Outstanding purchase price debt for acquisition of company (non-interest bearing) | 45,800 | 0 |
| **Total** | **46,334** | **0** |

### 3.3. Long-term interest-bearing payables

| TCHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Syndicated loan | 115,000 | 55,000 |
| Outstanding purchase price debt for acquisition of company (non-interest bearing) | 105,500 | 0 |
| Loans of shareholdings | 925 | 195 |
| **Total** | **221,425** | **55,195** |

### Maturity structure

| TCHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Up to 5 years | 221,425 | 55,195 |
| More than 5 years | 0 | 0 |
| **Total** | **221,425** | **55,195** |

### 3.4. Other operating expenses

| TCHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Property insurance, fees | 0 | 18 |
| Administration and IT | –185 | –30 |
| Marketing and sales | –79 | 0 |
| Other operating expenses | –18 | –1 |
| Bank charges, agency fees | –34 | –208 |
| **Total** | **–316** | **–221** |

## 4. Shareholders

| >3 % | 31.12.2016 | 31.12.2015 |
|---|---|---|
| ZMP Invest Ltd, Lucerne | 12.37 % | 10.50 % |
| Weiss family and Innovent Holding AG, Wollerau | 5.35 % | 5.21 % |
| Stichting General Holdings, Amsterdam | 4.08 % | |
| Argos Investment Managers S.A., Geneva | | 3.90 % |

By signing the purchase agreement for Pharmalys, Mr Amir Mechria acquired conversion rights to a maximum of 430,000 shares or 29.97 % of current issued shares of HOCHDORF Holding Ltd and notified HOCHDORF Holding Ltd accordingly on 1.11.2016.

## 5. Release of hidden reserves

| CHF | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Release of hidden reserves (by way of the reorganisation on 1.1.2015 transferred to HOCHDORF Swiss Nutrition Ltd) | 0 | 1,781,950 |

## 6. Transactions with own shares

| Business year 2016 | | | Business year 2015 | | |
|---|---|---|---|---|---|
| 1.1.2016 balance | 24,000 shares | at price 157.51 | 1.1.2015 balance | 5,143 shares | at price 136.75 |
| Purchases BY 2016 | 21,353 shares | at av. price 216.60 | Purchase BY 2015 | 44,708 shares | at av. price 148.04 |
| Sales BY 2016 | 20,981 shares | at av. price 188.14 | Sales BY 2015 | 25,851 shares | at av. price 140.54 |
| 31.12.2016 balance | 24,372 shares | at price 205.83 | 31.12.2015 balance | 24,000 shares | at price 157.51 |

## 7. Contingent capital

As of 31 December 2016, HOCHDORF Holding Ltd had contingent capital in the nominal amount of CHF 7,173,800, corresponding to 717,380 registered shares at nominal CHF 10.

## 8. 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 31.12.2016 | Number of shares 31.12.2015 |
|---|---|---|
| Josef Leu, Chairman, Personnel and Compensation Committee | 1,550 | 1,290 |
| Dr Anton von Weissenfluh, Vice Chairman, Personnel and Compensation, Market and Strategy Committee | 1,300 | 1,203 |
| Meike Bütikofer, Market and Strategy Committee | 531 | 441 |
| Dr Walter Locher, Audit Committee | 1,400 | 1,200 |
| Urs Renggli, Audit Committee, until 6 May 2016 | n.a. | 5,628 |
| Michiel de Ruiter, Market and Strategy Committee, from 29 November 2016 | 0 | n.a. |
| Niklaus Sauter, Audit Committee, Personnel and Remuneration Committee | 400 | 114 |
| Dr Daniel Suter, Audit Committee, from 6 May 2016 | 160 | n.a. |
| Prof Dr Holger Karl-Herbert Till, Market and Strategy Committee | 150 | 150 |
| **Board of Directors Total** | **5,491** | **10,026** |

### Group Management

| | | |
|---|---|---|
| Dr Thomas Eisenring, CEO | 825 | 600 |
| Marcel Gavillet, CFO | 1,230 | 1,300 |
| Christoph Peternell, COO | 400 | 200 |
| Werner Schweizer, Managing Director Dairy Ingredients | 165 | 165 |
| Michel Burla, Managing Director Cereals & Ingredients | 300 | 300 |
| Frank Hoogland, Head of Global Marketing & Sales | 0 | 0 |
| Fons Togtema, Managing Director Baby Care | 32 | 32 |
| Dr Karl Gschwend, Managing Director Strategic Projects | 114 | 114 |
| **Group Management Total** | **3,066** | **2,711** |

| | | |
|---|---|---|
| **Total of Board of Directors and Group Management** | **8,557** | **12,737** |
| in % | 0.60 % | 0.89 % |

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.

## 9. Contingent liabilities

HOCHDORF Holding Ltd is liable as joint and several debtor by way of assuming the debt for the credit line a bank institute awarded to Uckermärker Milch GmbH for EUR 10 million.

## HOCHDORF Holding Ltd

### Proposed appropriation of retained earnings

| | 31.12.2016 CHF | 31.12.2015 CHF |
|---|---|---|
| Profit carried forward | 42,042,522 | 38,636,600 |
| Change correction on balance of own shares from the previous year [1)] | 92,500 | 3,922 |
| Change in effective balance of shares from conversion of bond | 0 | 7,893 |
| Profit from current year | 6,097,514 | 3,394,107 |
| **Total available to Annual General Meeting** | **48,232,536** | **42,042,522** |

### Proposed appropriation of retained earnings

| | | |
|---|---|---|
| Balance carried forward | 48,232,536 | 42,042,522 |
| **Total appropriation of profit** | **48,232,536** | **42,042,522** |

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

### Proposal for the distribution of a dividend from reserves from capital investments

| | | |
|---|---|---|
| **Reserves from capital investments** | **72,968,058** | **37,594,679** |
| Capital investments from conversion of convertible bond [3)] | –104,266 | 40,681,991 |
| Conversion of reserves from capital investments to free reserves [2)] | –5,452,088 | –5,308,612 |
| **Remaining reserves from capital investments** | **67,411,704** | **72,968,058** |

2) CHF 3.80 (PY CHF 3.70) in dividends per nominal CHF 10 of share capital from the capital investment reserves. The effective dividend payment amount is calculated on the effective number of shares outstanding at the time of the dividend payment.

3) Already incurred costs in connection with the mandatory convertible bonds that will be issued in March 2017.

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 10 March 2017

## 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 90 to 96), for the year ended 31 December 2016.

**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 2016 comply with Swiss law and the company's articles of incorporation.

**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

## Impairment of equity investments

**Audit matter**

HOCHDORF Holding Ltd. holds all the equity investments of the HOCHDORF Group. The equity investments are a significant part of the assets. By definition, amounts recognized on the balance sheet are subject to an impairment risk. Any impairment can have a significant impact on the net income and equity of HOCHDORF Holding Ltd. Whenever there are indications of impairment, management prepares assessments, which can also be based on simplified models.

The accounting principles relating to the equity investments are disclosed in the notes to the financial statements of HOCHDORF Holding Ltd. In addition, the list of shareholdings included in section 3.1 of the notes provides details on direct and indirect equity investments.

**Our audit response**

We reviewed the valuation of the equity investments using the audited financial statements as well as the calculations of capitalized earnings value that were presented to us. Furthermore, we interviewed management about the strategies and future outlook of the subsidiaries and considered the assumptions on which the valuations were based.

**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 para. 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

# Corporate Social Responsibility

# Corporate Social Responsibility

## Our employees

As at 31 December 2016, the HOCHDORF Group has a total of 633 employees. The number of employees in Switzerland has risen by 34 people in comparison with 2014. This increase is primarily based on the growth in the area of Baby Care, on new equipment and on the insourcing of some of the logistics. We value the experience and commitment of our employees and reward their loyalty in HOCHDORF Swiss Nutrition Ltd with a company loyalty gift as soon as they have been with us for five years.

**Profit sharing for all**
The employees of HOCHDORF Swiss Nutrition Ltd can share in the success of the company. The profit-sharing scheme is a thank-you to the employees for thinking and acting in a cost-conscious manner. A profit-sharing payout has been possible for the last two years.

**Equal opportunity and diversity in the workplace**
Women and men are promoted in equal measure in the HOCHDORF Group. The principle of equal pay for equal work also applies. Women make up around a third of the workforce of the HOCHDORF Group. The proportion of women in middle- and upper-tier management has increased slightly and is currently 22 %.

People from a wide variety of social backgrounds and of various ages and nationalities work in the HOCHDORF Group. When employing new people we pay attention not only to their professional skills but also to the composition of the working team. For example, the HOCHDORF Group filled over 13 % of new vacancies in Switzerland with people who were older than 50 at the time of their appointment.

**Shift work and safety**
Irregular working hours are stressful. For that reason night and weekend work is subject to special compensation at HOCHDORF. Shift-workers in Switzerland have no legal entitlement to a paid break. However, HOCHDORF Swiss Nutrition Ltd voluntarily pays for a half-hour break. As a result, actual working time amounts to about 7.9 hours per day. As well as a 10 % time credit, night bonuses amount to 34 % instead of the legally prescribed 25 % and, in addition to the obligatory Sunday bonus, they are also supplemented by a voluntary Saturday bonus. The employees in Switzerland also have at least 24 days holiday a year.

Safety management at the HOCHDORF Group covers areas such as occupational safety, food safety, data security, compliance and crisis management for internal and external damage events, as well as food-safety crises. There is also the post of «Safety Officer», who is responsible for occupational safety. Swiss in-house emergency response officers have also received advance training as part of the normal two-year cycle and passed the BLS/AED exam. For employees with a management function and in collaboration with SUVA, HOCHDORF Swiss Nutrition Ltd organised the seminar «Responsibility in Occupational Safety».

**Commitment to basic and advanced training**
The HOCHDORF Group trained over 30 apprentices in seven occupations at the end of 2016. The situation is regularly reviewed. Since 2015 we have included mediamatics and logistics apprenticeships in our programme. But HOCHDORF offers more than just training. Where possible, we try to make it easier to start a career. In Switzerland we gave permanent employment to total of five business trainees and one food technologist on completion of their apprenticeships. At Uckermärker Milch GmbH for example, we hired a dairy science lab assistant and two milk technologists.

No progress or expertise is possible without life-long continuing education. The HOCHDORF Group is dependent on experts and for this reason offers various advanced training courses. For example, there is an online training course in hygiene, which production employees have to complete. A hygiene day with outside speakers is also held each year for managers and senior employees from production, the laboratory and product development. A refresher course of this type is held every two years In Lithuania.

Working in the HOCHDORF Group is becoming ever more international. For that reason we have offered our employees English courses at various levels since 2014. These courses are attended by an average of 20 employees per year.

The HOCHDORF Group also encourages individual further education and training. For example HOCHDORF has supported degree courses and higher technical qualifications as sales managers, logistics specialists, experts in accounts and controlling and in the area of marketing and communication. In areas or countries where there is a lack of advanced technical training opportunities, we support our employees with internal training courses, for example at our location in South Africa in the area of chocolate production.

**Annual employee meetings**
A target/performance and support meeting is held at least once a year with each employee. The meetings follow a defined pattern and form the basis for personal advanced training and career planning.

**Healthy pension fund**
HOCHDORF's pension fund performed well in the past two years and is still on very solid footing. The Pension Fund Foundation is managed by a body composed of employer and employee representatives. The level of coverage is 117.8 % (as of 31.12.2016), an interest rate of 2.75 % was paid on the savings credit in 2016. Employees have the flexibility of retiring between the ages of 58 and 70.

### Employee figures

| | 2016 | 2014 | 2012 |
|---|---|---|---|
| **Total number of employees (as at 31 December)** | **633** | **390** | **381** |
| Number of full-time equivalents (as at 31 December) [1] | 589 | 364 | 356 |
| **Employees by area** | | | |
| Administration and Marketing/Sales | 120 | 69 | 61 |
| Laboratory and Development | 94 | 52 | 54 |
| Production | 343 | 190 | 192 |
| Supply Chain and Technology | 76 | 35 | 30 |
| **Employees by location** | | | |
| Hochdorf | 212 | 193 | 203 |
| Sulgen | 166 | 151 | 131 |
| Medeikiai, UAB HOCHDORF Baltic Milk | 52 | 44 | 44 |
| Marbach, Marbacher Ölmühle GmbH | 14 | | |
| Prenzlau, Uckermärker Milch GmbH | 184 | | |
| Cape Town, HOCHDORF South Africa Ltd | 5 | | |
| **Trainees in occupational apprenticeships** | **31** | **11** | **10** |
| **Total proportion of women** | **32 %** | **28 %** | **28 %** |
| **Proportion of women in middle- and upper-tier management** | **22 %** | **18 %** | **18 %** |
| **Staff turnover** [2] | **5.85 %** | **6.65 %** | **5.09 %** |
| **Sickness rate, in % of all working days** [3] | **4.70 %** | **1.14 %** | **1.36 %** |
| **Accident rate, in % of all working days** | **0.52 %** | **0.66 %** | **0.4 %** |

1) Apprentices are calculated at 50 % of a position.
2) Voluntary departures in relation to the average number of employees per year.
3) First figures for companies abroad.

## Our energy sources and energy consumption

The HOCHDORF Group has changed greatly in the two years since the last publication of its sustainability report. On the product side, not only dry milk products are produced and sold today, but also butter, curd and buttermilk. The production of these products is significantly less energy-intensive than the production of milk powder or even infant formula. HOCHDORF had already pressed oil prior to the acquisition of Marbacher Ölmühle – VIOGERM® wheat germ products – but the quantities in the Cereals & Ingredients division have increased substantially. However, with regard to the entire produced quantity, the cereal products still only make up a small percentage.

The figures and projects on the subject of energy sources and energy consumption relate to the activity of the HOCHDORF Group, with the exception of the chocolate factory in South Africa. For a first comparison, the quantities produced as well as the consumption of energy and water at Uckermärker Milch GmbH were also recorded for 2014, although the HOCHDORF Group did not own a majority stake in this plant at that time.

**Focus on product quantity produced**
The starting point for previous analyses of energy consumption was the processed quantity of liquid (milk, whey, etc.). The focus is now shifting in the direction of tonnes of product produced in total due to changes in the product line. As another innovation, the $CO_2$ emissions of the HOCHDORF Group will also be shown for the first time.

The HOCHDORF Group processes and refines natural raw materials such as milk, whey and cereals into valuable ingredients mainly for other food manufacturers and also directly for the end customer. The most important partial processes for the production of milk powder include concentrating, drying, mixing and packaging. In the area of cereals, this is primarily the pressing of seeds and milling of press cakes into high-quality flour.

**Making products with short shelf lives last longer**
Milk and whey are raw materials that perish very quickly at room temperature. Thanks to the drying process, HOCHDORF turns milk, for example, into a food product that will last substantially longer. As a result, HOCHDORF makes a contribution to the prevention of food waste.

Drying plants generally require process heat and fresh water. They produce waste heat, $CO_2$ and wastewater as a result. HOCHDORF is committed to handling available resources in an economical, environmentally-friendly manner. To the greatest extent possible, the waste heat is recycled back into the manufacturing process in the production plants.

**Water and wastewater**
A comparison of the years 2014 and 2016 shows the freshwater consumption and the accumulation of wastewater (absolute and as a percentage of the quantity produced) fell slightly. The decline is even more astonishing since a water- and wastewater-intensive process was started at the Sulgen location with the production of lactose. It was possible to achieve the reduction due to various measures in the area of water management in Sulgen. For example, we purify the water – water vapour – «obtained» from the vaporisation process and use it to flush out the lines. One of the main measures was an investment in a wastewater pre-treatment plant. This makes it possible to reduce the effluent that enters the local wastewater treatment plant. The gas obtained in the wastewater pre-treatment – roughly four gigawatt hours – is used in production.

An investment was also made in better wastewater treatment at the Medeikiai location. Thanks to a flotation system, it could be greatly improved and the pollution of the environment reduced.

**Energy consumption and $CO_2$**
The energy consumption of the HOCHDORF Group (fossil fuel energy sources and electricity) increased over two years by just 2.1 % from 264.4 to 269.9 gigawatt hours. During the same time period, the product quantity produced increased to 236,179 tonnes (+1.3 %). The $CO_2$ values were calculated by conversion factors on the basis of the original energy source. Accord-

ingly, the HOCHDORF production plants emit over 57,000 tonnes of $CO_2$ (+1.5 % in comparison to 2014). Per tonne of produced product, the $CO_2$ emissions have hardly changed, however.

The consumption of energy solely increased at the Swiss plants in the two-year comparison. HOCHDORF Baltic Milk processed significantly less milk, which led to a reduction in the absolute energy requirements. As a percentage of the produced quantity, however, the need for energy increased. It can be seen that utilised systems can be run more energy-efficiently.

In Uckermark, the two-year comparison showed a lower consumption of energy with slightly higher quantities of produced products. In total, dry products were produced less, and the production of buttermilk is less energy-intensive than, for example, the production of curd. Furthermore, the usage of energy could be optimised thanks to modernisation of the control system in the drying process.

**Insourcing of lactose production**
The over 10 % increase in the consumption of energy at the Swiss plants can be explained by the insourcing of the lactose production. In the past, 100 % of the lactose was purchased in powder form and used as an ingredient for infant formula. Today HOCHDORF produces most of the required lactose itself. The lactose produced in the company's own plant is added to the infant formula recipe in liquid form. The company's own production causes HOCHDORF Swiss Nutrition to need more energy in total and emit $CO_2$. In the product balance, this insourcing will result in significant energy and $CO_2$ savings. Transport and an energy-intensive drying process are no longer necessary.

Furthermore, the $CO_2$ recovery equipment at the Sulgen plant as mentioned in the last sustainability report was put into operation. This equipment processes the $CO_2$ emitted by burners for further use, specifically in the packaging of foods.

**Outlook**
As a user of agricultural raw materials, the HOCHDORF Group is dependent on an intact environment. As a first-level processor, we know that high-quality raw materials like milk, grain and oil seeds can only be manufactured in an intact environment. In Switzerland, HOCHDORF has made a commitment to the Industrial Energy Agency to reduce $CO_2$ emissions even more. In order to achieve this goal, the group will increasingly invest in new, energy-efficient systems. Accordingly, a modern system for concentrating milk is starting up in spring 2017 at the Hochdorf site as well as a high rack storage area at the Sulgen site in the autumn of 2017. As a result, a large number of lorry trips are no longer necessary.

**Energy and environmental figures** [1]

| | Unit | 2016 | 2014 | 2012 | Changes in % (2014 – 2016) |
|---|---|---|---|---|---|
| **Produced products** | **t** | **236,179** | **233,105** | **87,518** | **1.32 %** |
| **Fossil energy total** | **kWh** | **222,234,170** | **217,812,922** | **154,702,525** | **2.03 %** |
| Thereof natural gas | kWh | 222,124,170 | 216,908,663 | 154,179,932 | 2.40 % |
| Thereof heating oil | kWh | 110,000 | 904,259 | 522,593 | –87.84 % |
| **Electricity total** | **kWh** | **47,708,177** | **46,633,511** | **30,504,795** | **2.30 %** |
| **Fresh water volume** | **$m^3$** | **1,481,127** | **1,511,337** | **929,464** | **–2.00 %** |
| **Waste water volume** | **$m^3$** | **1,561,392** | **1,588,668** | **1,021,465** | **–1.72 %** |
| Energy/output fossil | kWh/t | 941.0 | 934.4 | 1,767.7 | 0.70 % |
| Energy/output electricity | kWh/t | 202.0 | 200.1 | 348.6 | 0.97 % |
| Fresh water | $m^3$/t [2] | 6.3 | 6.5 | 10.6 | –3.27 % |
| Waste water | $m^3$/t [2] | 6.6 | 6.8 | 11.7 | –3.00 % |
| **$CO_2$ emission** | **t** | **57,226** | **56,376** | **36,003** | **1.51 %** |
| $CO_2$ emission/prod. product | kg/t | 242.3 | 241.8 | 411.4 | 0.19 % |

1) Figures 2012: HOCHDORF Swiss Nutrition AG and UAB HOCHDORF Baltic Milk / Figures 2014 and 2016: All factories without HOCHDORF South Africa Ltd.

2) $m^3$ (waste) water per tonne produced products.

## The HOCHDORF Group in society

The HOCHDORF-Group maintains a lively discussion with internal and external stakeholders and target groups. Good relations with customers, employees and shareholders are of key importance to us. We also maintain regular contact with authorities, associations and local residents.

At our locations both at home and abroad we receive strong backing for our commercial success. We are an international and reliable partner. In this function we currently bear a major responsibility, with 347 full-time employees in Switzerland and 242 abroad. With a payroll of nearly CHF 47.8 million, we are an important player in regional commerce and for the Treasury at our locations. Local trades also benefit as far as possible from our investment projects.

**Our role in the economy and politics**
The companies in the HOCHDORF Group see themselves as both customers and partners of productive agriculture. In addition to regular production, HOCHDORF helps to even out seasonal volume fluctuations and stabilise the market with its drying plants. By purchasing, processing and selling agricultural raw materials we enable many farming families to achieve a regular income.

We are particularly proud of the procurement of cocoa beans for our chocolate products in South Africa. It is rare for an African chocolate producer to procure its cocoa beans directly from Africa. We procure our cocoa beans from around 60 cocoa farmers in Tanzania. The cocoa beans are shipped directly from Tanzania to Cape Town and processed and sold by us in Africa. Thanks to this procedure the entire value chain stays on the African continent.

HOCHDORF takes part in some 50 national industry organisations, interest associations, expert commissions, and working groups and is committed to achieving good understanding, including in the Federation of Swiss Food Industries (fial), the Organisation for the Milk Sector (BOM), the Association of the Swiss Milk Industry (VMI), the Association of the German Milk Industry (MIV) and the foundation «Switzerland Folic Acid Campaign».

**Communication is important**
The HOCHDORF Group places great importance on good and effective communication. In this regard, Corporate Communications ensures that all internal and external information is up to date, accessible, and tailored to the target groups. It is important that all stakeholder groups receive information that is as timely and needs-related as possible. As a stock exchange-listed company, we comply with the directive on ad hoc publicity of the SIX Swiss Exchange. Internal communication channels include the monthly CEO newsletter, the intranet, e-mails, on-screen messages, a monthly information sheet and wall posters. There are also two information events every year for employees at all the Group's Swiss locations. The internal information policy is set down in writing and guarantees that our messages are appropriately forwarded to every level. In return, the employees have the opportunity to pass on their input via their immediate line managers or directly to the CEO.

The Annual Report, a letter to shareholders about the half-year financial statements, the customer magazine, HOCHDORF Inside, and various e-newsletters, keep shareholders and customers regularly updated on the course of business, developments in the Group, and the market environment. Media representatives and analysts are also informed about the annual figures at the annual results press conference. The HOCHDORF Group reports about any special events on an ad-hoc basis by means of press releases. All the latest information can be viewed at any time on the website(www.hochdorf.com) and some of it is also disseminated via social networks such as LinkedIn and Twitter.

Since the end of 2016 our key customers have also found all the relevant product documentation and specifications on an extranet specifically set up for them.

**Sponsorship and donations**
For the HOCHDORF Group, small sponsorships and donations are a component of its social responsibility. The Group concentrates its commitment in this regard particularly on activities in the vicinity of its locations, as well as on the areas of sport and charitable commitments.

The HOCHDORF Group funds the Hochdorf football club (FCH) as its main sponsor, as well as the figure skating school and the hockey club. In addition, we have supported various events in the vicinity of Sulgen and Hochdorf, such as the Easter Show Jumping in Amriswil and the Lake Baldegg Run in Hitzkirch. We also sponsored some one-off anniversary events for tennis and mountaineering clubs, for example. In terms of charities, the HOCHDORF Group has supported the local Samaritan association with Heliomalt and milk during blood donation events. We have also been involved in the «Chenderhand Seetal» association for four years. The association arranges childcare making it possible for many women to harmonise family and work responsibilities.

In its core business area the HOCHDORF Group supports the Eastern Switzerland Food Forum and the regional Hochdorf/Seetal cattle shows, and for several years has also acted as sponsor for advanced training in agricultural and domestic management at the Nature and Nutrition Training Centre in Hohenrain. With its donations, the HOCHDORF Group supported about 170 camps, associations, and organisations in the 2015 and 2016 business years with products such as Heliomalt, wheat germ shakers, VIOGERM® Wellness Crisps, and FEMTORP® Mousse. The associations and schools value our involvement very highly.

At our location in South Africa we sponsored the local library, as well as various community activities and clubs. We have recently been cooperating with «Mandela Tea» on the launch of a chocolate line, some of the profits from which will go to the «Mandela Day school library project».

At our location in Lithuania we supported the Lithuanian ladies double sculls in the Olympic rowing regatta, up to the 2016 Summer Games in Rio. The team rewarded us with a bronze medal. At the regional level we sponsored various cultural events in Birzai, such as the annual town carnival, the theatre festival and special shows in the Castle Museum, as well as charitable activities such as the organisation of Christmas gifts for the reception classes at the primary school in Medeikiai.

At international level we have supported Peruvian nuns with non-cash gifts for many years. The nuns are active in rural areas of Peru, not only providing spiritual welfare services but also performing numerous social tasks such as distributing medicines, giving lessons in hygiene, working as midwives and nurses, etc. Instead of giving gifts to customers at Christmastime, the HOCHDORF Group has donated an amount to the Zoodo Switzerland Foundation for the past four years. With our contribution we support a baby orphanage in Burkina Faso.

**The HOCHDORF Group and «Switzerland Folic Acid Campaign»**
The World Health Organisation (WHO) and the «Swiss Nutrition Report» identified a lack of sufficient folic acid provision worldwide. Closing the folic acid gap is today one of the most important measures for improving our health and quality of life. The HOCHDORF Group has been active in this area since the «Switzerland Folic Acid Campaign» foundation was established, and thanks to cold-pressed VIOGERM® wheat germ products, it manufactures numerous products under the folic acid label.

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