
ANNUAL REPORT

2017



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Further information



Important data/fact

Annual Report 2017

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Facts and key figures

2017 was characterised by investment, integration and acquisition for the HOCHDORF Group. Investment: additional capacities for the production of Swiss-made infant formula will be available from mid-2018. Integration: the cooperation with Pharmalys is working successfully. Acquisition: the acquisition of Zifru Trockenprodukte GmbH and the Snapz brand will enable the Cereals & Ingredients Division to continue with strategy implementation. Turnover and income figures reached new highs.

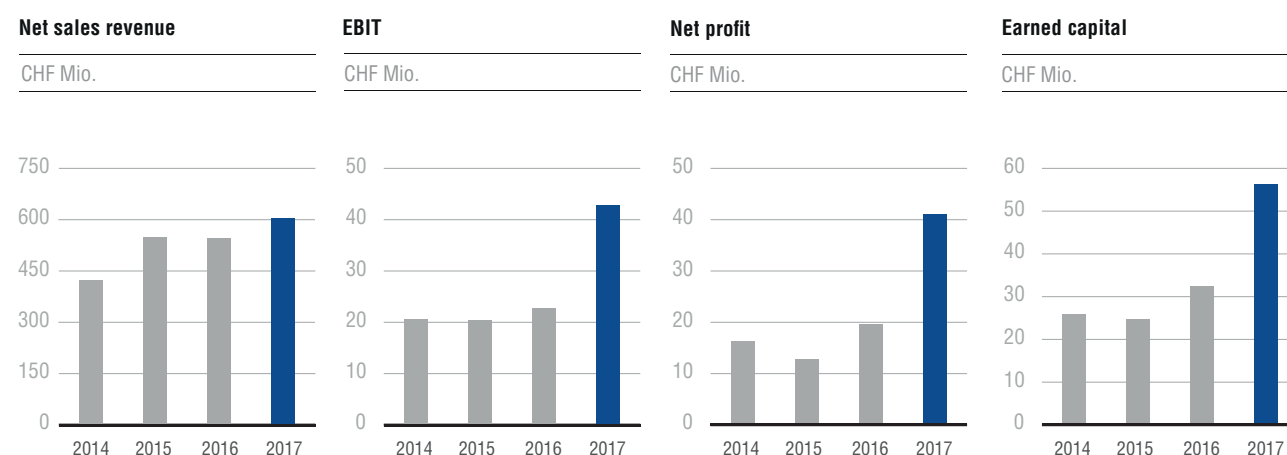
The HOCHDORF Group

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 and a fruit and vegetable-drying plant in Germany. In South Africa, HOCHDORF produces chocolate for the African market. As of the end of 2017, HOCHDORF had a 51% majority holding in the Pharmalys Group and a 65% stake in Snapz Foods AG. HOCHDORF is among the leading food companies in Switzerland and at 31.12.2017 had more than 700 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 and consumers 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 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 on premium markets and offers its customers a correspondingly high standard of service. In the medium term, HOCHDORF wants to grow with high-value-added products such as higher quality milk derivatives, infant formula and healthy Kids' Food and snacks. To improve its earnings figures, HOCHDORF is aiming for forward integration in terms of both sales and products.

Financial data



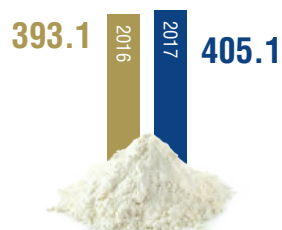
Key figures in the annual report

Key figures	2017	2016	2015	2014	2013
Processed milk and whey in tonnes	650,017	741,769	761,240	506,963	455,647
Products sold, in tonnes	190,499	237,054	242,821	99,155	91,699
Total assets (in TCHF)	582,270	425,474	340,396	331,109	243,485
Equity ratio	53.10%	10.80%	56.60%	43.20%	42.60%
Cash flow from operating activities (in TCHF)	6,019	24,227	18,134	20,546	18,196
Market capitalisation (in TCHF)	410,700	444,417	242,044	147,787	93,600
Share price as at 31.12. in CHF	286.25	309.75	168.70	138.00	104.00
Earnings per share in CHF	18.43	14.12	11.73	17.45	6.95
Staffing levels at 31.12.	695	633	625	573	362

Market data

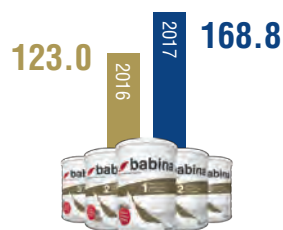
Net sales Dairy Ingredients

CHF Mio.



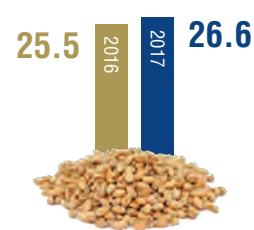
Net sales Baby Care

CHF Mio.



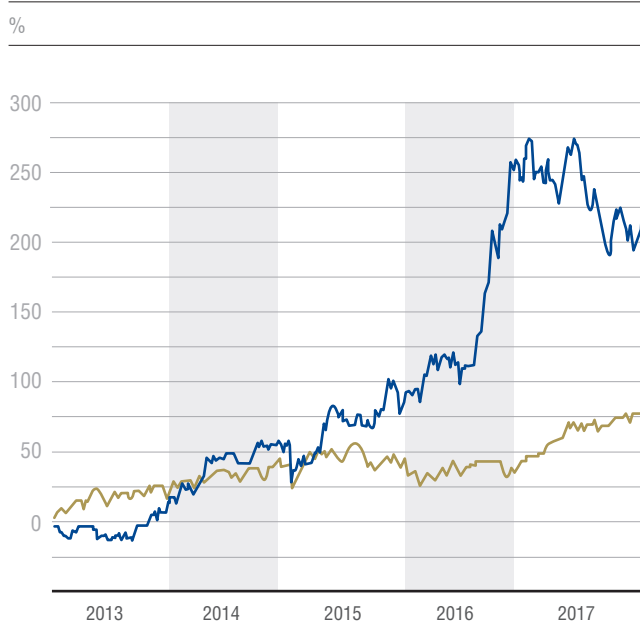
Net sales Cereals & Ingredients

CHF Mio.

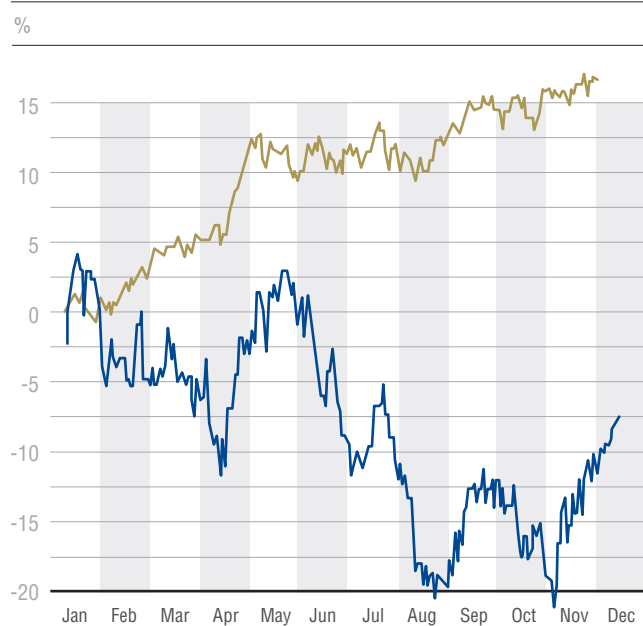


Share prices and charts

5-year comparison



Year comparison



— HOCHDORF share
— Comparison value (SPI)

Dear Shareholders

> **Page 24 et seq.**
Dairy Ingredients report

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Income statement

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Financial Report

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Annual financial statement

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Proposed appropriation of retained earnings

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Cereals & Ingredients report

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Group structure

All in all, we have successfully achieved the targets that were set. The results show that the move closer to consumers has turned out to be the right strategic decision, and the HOCHDORF Group is stronger than it was a few years ago. Above all, the Baby Care Division has developed tremendously well with Pharmalys. The 2017 business year was a mixed one for the HOCHDORF Group: On the one hand, the development of HOCHDORF's traditional business was somewhat subdued in the first half of the year, although it subsequently improved considerably, as expected. On the other hand, the margins of the core Dairy Ingredients Division remained weak.

Financial result in line with expectations

With regard to this annual report, the main focus of the income statement is net sales revenue.

In the 2017 business year, HOCHDORF achieved maximum values for turnover, EBITDA, EBIT and net profit, thanks to the majority shareholdings in companies belonging to the Pharmalys Group. The HOCHDORF Group generated net sales revenue of CHF 600.5 million in 2017 (PY: CHF 541.6 million; +10.9%). Gross sales revenue was also within the range predicted in the interim report of CHF 610 to 650 million. We increased EBIT by 89.7% year on year to CHF 42.6 million (PY: CHF 22.5 million). In relation to production revenue, EBIT was 7.1 and was therefore higher than the forecasted target band of between 6.1 and 6.6%. Net profit, at CHF 40.8 million, more than doubled compared with the previous year (PY: CHF 19.4 million; +110.5%). Further details regarding financial indicators can be found in the Financial Report and in the consolidated annual financial statements.

On account of these positive earnings figures and taking into account the large-scale investment, we propose to the Annual General Meeting a slight increase of twenty centimes in the dividend payout to CHF 4.00. This will let us continue a cautious dividend policy aimed at sustainability.

Integration and new acquisitions

Integration of the successful Pharmalys companies is being carried out gradually. The IT systems and the administration were successfully integrated in 2017. The cooperation will be further intensified at the level of sales and marketing. For example, HOCHDORF Swiss Nutrition Ltd and Pharmalys Laboratories SA will appear jointly at ESPGHAN (European Society for Paediatric Gastroenterology Hepatology and Nutrition) in Geneva. This is the largest European association of paediatricians.

At the beginning of November 2017, HOCHDORF announced the acquisition of Zifru Trockenprodukte GmbH and the Snapz brand. This will enable us to sustainably strengthen the Cereals & Ingredients Division in the area of healthy Kids' Food and snacks. Zifru's production facilities will now provide an optimum basis for producing and marketing healthy (children's) snacks. With the acquisition of the Snapz brand, we shall continue to rigorously pursue our strategy of forward integration.



Dr Thomas Eisenring
CEO

Dr Daniel Suter
Chairman of the Board of Directors

Intensive work on strategy implementation

As you know, the HOCHDORF Group is in the throes of a restructuring programme. The implementation of our forward integration strategy and the development and marketing of high value-added products to increase the EBIT margin involve hard work.

The acquisition of Pharmalys in 2016 was a key initial step for the Baby Care Division. The subsequent acquisition of Zifru Trockenprodukte GmbH and the Snapz brand in 2017 were an equally important step for the Cereals & Ingredients Division. The strategic targets set for 2020 ultimately apply to all three HOCHDORF divisions.

It is undoubtedly a challenging time for all employees in the HOCHDORF Group. Everyone is focused intently on strategy implementation – in all three business divisions. At this juncture, we would like to thank all our employees for the work they have done.

Purchase price of Pharmalys

Pharmalys Laboratories SA continued its strong growth in 2017. The purchase price for the majority stake in Pharmalys Laboratories SA currently amounts accordingly to a maximum of CHF 248.2 million. In connection with the strategic further development of the Baby Care Division and the desired forward integration, this is however an important market investment for the HOCHDORF Group.

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Business model,
strategy and markets

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Purchase price calculation
for Pharmalys

Further investment in Sulgen

In Sulgen, work on the second production line for infant formula continued with spray tower 9, can line 2 and the high rack storage area. The high rack storage area was put into operation in December 2017. Work on the spray tower lagged slightly behind the original schedule at the end of the year. Extensive plant tests will be carried out in April and May. The intention is to hand over the system for commercial production in June 2018.

We have had to increase the credit line for investments to CHF 112 million. There are two reasons for this: the amount we budgeted for was too small and new requirements and/or possibilities have been identified that will simplify the operational running of the system.

Quality is key

With the new facility, the HOCHDORF Group will be able to produce and market over 50,000 tonnes of infant formula in total in the future. Hence, the HOCHDORF Group is developing from a dairy into a pharmaceutical business. The subject of product quality is therefore a bigger priority than was the case in previous years. Consequently, the HOCHDORF Group invests annually in maintaining and improving quality. In addition to infrastructure projects, we also promote the basic and advanced training of our staff. The subject of quality will be a focal point in 2018.

Outlook

Implementing the HOCHDORF strategy requires the commitment of all employees. 2018 represents a transitional year and will be challenging due to the ongoing projects for achieving our strategic goals. For example, we need to market the additional potential capacities in the Baby Care Division, bring our business of healthy Kids' Food and snacks to market and distribute the high value-added new products developed in the Dairy Ingredients Division as quickly as possible. For further details on the projects in 2018, see the reports by the individual business divisions.

In the current business year, we are expecting net sales revenue in the range of CHF 600 – 630 million (PY: CHF 600.5 million). The basis for turnover growth will be the additional capacities in the infant formula segment and (to a smaller extent) the acquisition effect in the Cereals & Ingredients Division. On the earnings front, we are expecting the proportional EBIT in relation to production revenue to be 7.0 – 7.5% (PY: 7.1%).

The HOCHDORF Group is in the throes of a restructuring programme. We would like to thank all those who have helped to bring this strategy to fruition. As well as employees, this includes investors and our customers. Thank you very much for the trust you have placed in us!



Dr Daniel Suter
Chairman of the Board of Directors



Dr Thomas Eisenring
CEO

«HOCHDORF Group is developing into
a highly profitable niche provider in the global
premium market for healthy foods.»

HOCHDORF share



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Share prices and charts

Share price development in 2017

After the extremely good performance in 2016 (+83.6%), the price of HOCHDORF stock decreased somewhat in 2017. At the beginning of the year, the share rose initially to an annual high of CHF 340, followed by a downward trend, sharp at times, before hitting a low of CHF 247.80. The share price had recovered again by the end of the year, and the price at the close of trading on 29.12.2017 was CHF 286.25. Accordingly, HOCHDORF stock fell by 7.6%, whereas the Swiss Performance Index (SPI) gained just under 20%. Over a five-year period (01.01.2013 – 29.12.2017), the HOCHDORF share price has risen by 226%. As of 31.12.2017, HOCHDORF Holding Ltd had 1,434,760 registered shares (no change over previous year). Market capitalisation stands at CHF 410.7 million (previous year: CHF 444.4 million).

Share prices and charts

Listing

HOCHDORF Holding Ltd is listed on the SIX Swiss Exchange (ISIN CH0024666528).

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

Dividend

On the basis of the marked improvement in results, the Board of Directors is applying to the Annual General Meeting for a dividend payment from capital investment reserves of CHF 4.00 per share (previous year CHF 3.80). With the increase, a dividend return of 1.40% is achieved as at the closing date, 29 December 2017. The 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.

By category as at 31.12.2017

Description	Registered shareholders
Natural persons	2,238
Legal entities	92
Pension funds	16
Insurance companies	4
Investment company/fund	29
Other trusts	11
Banks	19
Public corporation	6
Total	2,415



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Information about
significant shareholders

Shareholders spread as at 31.12.2017

Number of shares	Registered shareholders
1 – 10	256
11 – 100	1,397
101 – 1,000	671
1,001 – 10,000	70
10,001 – 100,000	20
100,001 or more	1
Total	2,415

Disclosure of equity holdings

According to Article 120 of the Federal Act on Financial Market Structures 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 their 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
4 May 2018
- › Dividend payment
10 May 2018
- › Half-yearly statement 2018
30 August 2018

Key indicators for HOCHDORF Holding Ltd stock

		2017	2016	2015	2014	2013
Share capital as of 31.12.	TCHF	14,348	14,348	14,348	10,709	9,000
Number of shares as of 31.12.	Units	1,434,760	1,434,760	1,434,760	1,070,922	900,000
Nominal value per share	CHF	10.00	10.00	10.00	10.00	10.00
Profit/loss (–) per share	CHF	18.43	14.12	11.73	17.45	6.95
EBITDA per share	CHF	38.84	23.25	21.23	25.40	20.11
EBIT per share	CHF	29.70	15.66	14.04	18.69	11.44
Earned capital per share	CHF	39.06	22.45	17.33	23.63	20.14
Equity per share	CHF	215.56	31.92	134.37	133.69	115.30
Dividend per share	CHF	4.00 ¹⁾	3.80	3.70	3.70	3.20
Peak price	CHF	340.00	320.00	178.00	141.30	105.30
Lowest price	CHF	247.80	163.00	107.50	100.80	79.20
Price at close of trading as of 31.12.	CHF	286.25	309.75	168.70	138.00	104.00
Average trading volume per day	Unit	3,131	2,650	2,312	1,202	804
P/E (price/earnings ratio) as at 31.12.		15.5	21.9	14.4	7.9	15.0
Dividend return	%	1.4	1.23	2.19	2.68	3.08

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

Business model, strategy and markets



The HOCHDORF Group would like to internationalize to an even greater extent in the Cereals & Ingredients Division.

The HOCHDORF Group is one of the leading food companies in Switzerland. The company operates in the areas of Dairy Ingredients, 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, vegetable oils and flours. With the acquisition of Zifru Trockenprodukte GmbH in Germany, HOCHDORF is now also active in the area of dried vegetables, fruits and other specialities.



The HOCHDORF Group will get closer to end consumers step by step.

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. With the acquisition of the Snapz brand and the stake in Pharmalys Laboratoires SA, the company is increasingly also engaging in the business-to-consumer business. 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.

Dairy Ingredients

The roots of the HOCHDORF Group lie in the production of various milk powders. In 2017, this division was responsible for two-thirds of the net 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 focuses on milk filtration and milk drying processes. The majority of the products are exported.
- › Uckermärker Milch GmbH, Prenzlau (DE), 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.

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 2017, the HOCHDORF Group earned around 28% of its revenue with infant formula.

- › 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.
- › With the 51% majority shareholding in companies in the Pharmalys Group, HOCHDORF is moving closer to the consumer market. Pharmalys markets infant formula as well as cereals under the Primalac and the Swisslac brands. The products are available in over 40 countries in Europe, Asia, Africa and the Middle East.



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Dairy Ingredients report



HOCHDORF has been manufacturing food for children since 1908.



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Baby Care report

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.

- › 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. Further priorities are the development and marketing of Kids' Food products and cereal-based healthy snacks and ingredients as well as dried vegetables, fruits and other specialities.
- › Marbacher Ölmühle GmbH, Marbach (Germany), 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.
- › Zifru Trockenprodukte GmbH, founded in 1997 in Zittau (Germany), specialises in the development and production of healthy, long-life fruit and vegetable products. The fruit and vegetable items are dried using state-of-the-art technology. The drying system is one of the largest of its kind in the world.
- › Snapz Foods Ltd was founded in 2017 and is based in Hochdorf. The company markets dried fruits and vegetables as well as other dried specialities directly on the consumer market. HOCHDORF has a 65% stake in this company.
- › HOCHDORF South Africa Ltd, based in Cape Town, was founded 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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Cereals & Ingredients
report

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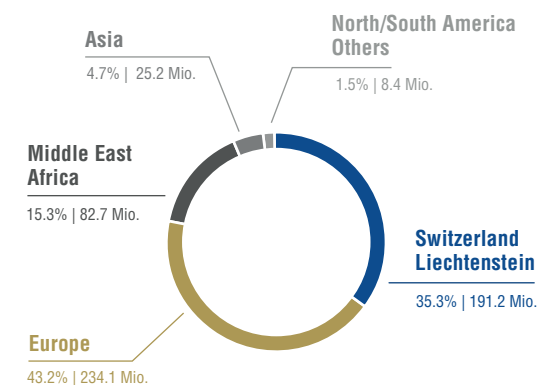
Two oils won an international award in 2017.

Please visit our website
www.zifru.de.

Net sales revenue by region

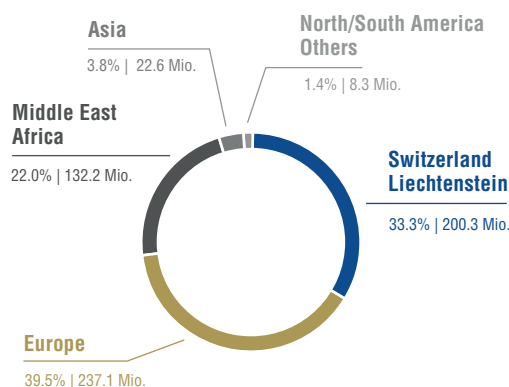
2016

relative | absolute



2017

relative | absolute



Strategy 2017 – 2021: successful strategy will continue

Our goal is to turn HOCHDORF into a global, profitable niche company with premium products. 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. With the 51% majority stake in Pharmalys Laboratories SA, Pharmalys Tunisia SA and Pharmalys Africa Sarl, the HOCHDORF Group is on an ideal course in the area of Baby Care, especially when it comes to interesting target markets (MEA region and/or Asia).



HOCHDORF is also increasingly focused on the area of private labels with holistic marketing concepts.

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 product specialist. 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 premium products accordingly and use them to establish itself in its target markets.

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 using key indicators. A further objective involves optimising the supply chain throughout the entire Group.

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

Strategy and markets for Dairy Ingredients

We aim to develop our Dairy Ingredients business at a sustainable global level from a strong Swiss base. Cooperation between the milk plants will be optimised to the greatest extent possible, and the product portfolio organised logically.

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. At the site in Prenzlau, we are, for example, planning to produce specialist milk powder, which is sought after on the market.

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

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 Middle 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 accordance with our premium strategy. In the medium term, the Baby Care Division aims 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 and increase demand accordingly. The new spray tower line for manufacturing and filling Swiss-made infant formula in Sulgen should start operating at the end of the second quarter of 2018.



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Dairy Ingredients report



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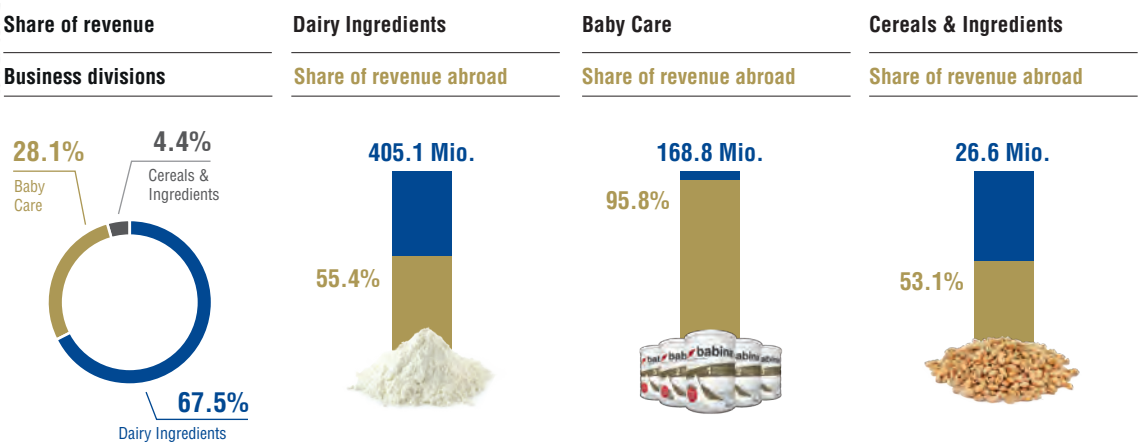
Baby Care report

Strategy and markets Cereals & Ingredients

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 Zittau (Germany) as our base. Marbacher Ölmühle GmbH focuses on organic vegetable oils and specialist flours produced from the resulting press cake. Following the expansion of production at the Marbach site, it is now essential to sell the potential additional quantities on the market and gain market shares. 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 production side, Cereals & Ingredients is entering the private label market with its Kids' Food production. The demand for healthy, tasty food for children and the need for customers to extend their product range are gathering strength. With the VIOGERM® wheat germ products, various organic vegetable oils and flours and the dried vegetable and fruit products of Zifru Trockenprodukte GmbH, HOCHDORF has a solid base to service these needs. The products will be sold under our own brand (Snapz) and also as business-to-business products in existing partner networks.

Distribution of net sales revenue



«We have very competent and committed employees in core positions.»

Dr Thomas Eisenring, how satisfied are you with the 2017 business year?

› All things considered, I am satisfied. As far as consolidated earnings are concerned, we have reached completely new heights, but even after minority interests, 2017 was still a record year. The bad news is that the majority of these positive figures were the result of forward integration, meaning that our traditional business was less profitable. Having said that, these figures also prove that we are on the right track.

What did you especially like or dislike about the 2017 business year?

› The performance of Pharmalys was impressive; HOCHDORF took the step of forward integration just in time. The Cereals & Ingredients Division also created the perfect basis for sustained further development. I would have preferred to have avoided the loss of our key markets in Egypt and Libya in the first half of the year and the catastrophic pricing situation for skimmed milk and milk proteins.

What were the specific challenges in the three business divisions?

› In the Dairy Ingredients Division, the differing price trends were particularly challenging, with record prices for milk fat and rock bottom prices for milk proteins and skimmed milk powder. Aside from the loss of the key markets in Egypt and Libya, the Baby Care Division focused intensively on the acquisition of new customers so as to quickly fill the existing production capacities from June 2018. In the Cereals & Ingredients Division, the extension of production capacities at Marbacher Ölmühle and the reorganisation of the set-up for the global marketing of healthy kids' food were particularly demanding. All in all, HOCHDORF has done a good job.

What, in your view, are the biggest challenges that HOCHDORF Swiss Nutrition has to face with regard to the growing production capacities in infant formula?

› I think the biggest challenge we face is how to develop the organisation at the same rate. Let's take logistics as an example: previously the organisation had to coordinate an external logistics partner now we are managing our own logistics facilities with a total capacity in excess of 13,000 pallet slots and using fully computer-controlled systems. The demands on the organisation in this area have risen many times over.

On top of that, our customer base has also changed. With a 50,000 tonne capacity, we have become a big player on the market, and accordingly high-calibre clients are knocking on the door. Sometimes the demands of these clients far exceed those of our old established client base.



Dr Thomas Eisenring
CEO

At full capacity HOCHDORF will produce over 50,000 tonnes of infant formula. Is HOCHDORF turning into a pharmaceutical company?

› In the Baby Care Division we are very close to pharma business, and from the point of view of production and markets we operate at close quarters with the pharmaceuticals area. Of course, this will lead to sales opportunities in the area of pharmaceutical-related products, such as food supplements.

However, HOCHDORF does not intend to become a pharmaceutical company. As we have set out in our vision, we want to become a global, highly profitable niche provider for healthy food. There is a top segment in every market, and we want to occupy it.

One newspaper article is quoted as saying that the HOCHDORF Group has too many works in progress. What would you say to such criticisms?

› Well, it's certainly not boring, that's for sure. I think it's normal that new opportunities open up in the course of a transformation process. Past decisions can turn out to be problematic in the context of a new market environment or a new strategy. Or new possibilities present themselves that have to be exploited. Corporate development always entails risks and opportunities. The main thing is to keep an eye on the big picture. When I compare the added value that our strategy generates with the risks from these works in progress, the latter are really controllable.

The goal of the HOCHDORF Group is to become a global, profitable niche company with premium products by 2020. Which business divisions have progressed the furthest and the least in this transformation process?

› We are currently working on implementing our strategy in all three business divisions. The Baby Care area has taken an important step with the majority stake in Pharmalys. The same goes for the Cereals & Ingredients Division with its investment in Marbacher Ölmühle, the acquisition of Zifru and the purchase of the Snapz brand. Implementation in the Dairy Ingredients Division will be more difficult. However, there is still room for progress in the core business division. With the launch of special products we have taken an important step, although these will be produced in Germany. The situation remains difficult in Switzerland.

As a majority shareholder of Pharmalys and thus the Primalac and Swisslac brands, is the HOCHDORF Group well known in the market?

› We are well known to insiders but not to consumers. This is not the objective, though, as the focus when adopting a business-to-consumer approach is on the brand. Take our brand «Afrikoa» in South Africa: it is only apparent that HOCHDORF is behind it if you look closely, and that's not a bad thing.

What is the difference between the Pharmalys and Zifru/Snapz acquisitions?

› The two transactions are fundamentally different in every respect. Pharmalys is a highly profitable company in an existing core HOCHDORF business. We have suddenly become a business-to-consumer player with the majority takeover and have massively improved our margins to boot; this also places us on a much more stable footing. Such companies are real gems and are not exactly cheap.

Snapz and Zifru are smaller investments aimed at economically obtaining an adequate technology portfolio (Zifru) at a low-cost location (Zittau). The focus here is on diversification into healthy kids' foods at globally competitive costs. The aim with Snapz was to buy an established brand in the US and in the UK to at least partly pursue a business-to-consumer approach here too.

Both Snapz and Zifru have done a lot of the groundwork. Owing to a lack of capital, however, they have never managed to achieve what they would have been able to achieve with the necessary financial resources. Both transactions were therefore relatively inexpensive and can be channelled into completely different dimensions with the corresponding investment.

What steps do you intend to take next with the Zifru/Snapz transaction?

› Zifru is purely a production facility that ultimately depends on capacity utilisation. Therefore, the focus is on marketing. We should have all the necessary technologies united under one roof from the middle of the year, enabling us to produce and package the corresponding products.

Distribution is also a focus at Snapz, and it is a case of providing the appropriate resources. In the medium term, we will have to develop Snapz into a premium brand and review the sales concept. For me, the issue of «direct to the consumer» is very important here. Healthy products often have a hard time in supermarkets, because only turnover per shelf space counts. My vision is that in future a mother will be able to order snacks for her child for a whole week directly online.

What are the three biggest strengths of the HOCHDORF Group, in your opinion, and how do you want to expand on them?

› One of our biggest strengths is undoubtedly our employees. We have very competent and highly committed employees in core positions who bear a large amount of responsibility. Stars are relatively few and far between in our industry, and so we often use the network of our employees when recruiting and leave the HR textbook on the shelf.

The second strength, as I see it, is our high-profile presence in the MEA region, which we have cemented even further with our majority shareholding in Pharmalys. The MEA markets are non-uniform and complex; many companies are in over their heads there, and so these markets are an ideal playing field for us. We intend to further consolidate our position in these markets.

As a third strength, I would cite the specific risk propensity of the HOCHDORF Group. HOCHDORF takes calculable risks as a medium-sized company. This is, for example, illustrated by our «Afrikoa» project or our investments in expanding capacity for infant formula in Sulgen. The corresponding risks must, however, be tailored to the respective business division.

What, in your view, are the biggest risks of the HOCHDORF Group and what measures are taken to minimise them?

› Infant formula is the only source of food for babies who are not breast-fed. Product quality is therefore key. HOCHDORF infant formula is checked umpteen times up to shipping to our customers and tested for all manner of substances. Regular storage tests are also carried out after delivery. By expanding infant formula production, we have also invested in the quality assurance and quality analysis department. Quality control at the plant is regularly modernised too.

I see the diverging behaviour of market players in the Swiss milk industry as a significant risk. For example, officials talk about value strategies, whereas many market participants are doing precisely the opposite. It seems to be the trend for producer organisations to invest in cheese dairies, «dispose» of their milk via the export of cheap cheese and then pocket the cheese subsidy. Organisations with close ties to producers are also known to be the biggest price-cutters; this cannot work.

We will ensure our own milk supply for premium products. In the industrial sector we will probably have to go along with the prices of our competitors, with the corresponding influence on the milk price that we can afford.

What will the HOCHDORF Group look like in five years?

› Hopefully HOCHDORF will produce a total of 50,000 tonnes of infant formula in 2023. This would mean that the existing factories are producing more or less at full capacity. At the same time, we will sell more than half of this quantity under our own brands.

Cereals & Ingredients will have established itself with its own products in the niche sector for healthy snacks for children and adults. We will also sell products under our own brand in this business division – in selected markets as well as through e-commerce.

The share of «commodity» products in the Dairy Ingredients Division will certainly have fallen markedly by 2023. By then, HOCHDORF will have made a name for itself in the market with its specialist powders. In Switzerland, therefore, the production capacities of the HOCHDORF Group will only be available to a limited extent for the milk regulation in spring.

Dr Thomas Eisenring, thank you for the in-depth interview.



«Humans and their microorganisms constitute a sensitive ecosystem. We are simultaneously both habitat and provider. What we eat influences the diversity of bacteria in our body.»



NUTRITION IN EARLY CHILDHOOD

«Children and their tiny health workers – hungry for prebiotics.»

To stay healthy, our little ones need the important protection provided by good bacteria. Together, these bacteria create the sensitive and highly effective microbiota, which takes over important functions like protection against pathogenic germs. But our tiny health workers need nutrition in order to carry out their work effectively.

Incredibly, the digestive system of an adult contains around 100 trillion bacteria. Placed in a line, they would encircle the circumference of the world. Most bacteria present in our body are healthy and keep our system running. They are responsible for our metabolism, our digestion and protection from harmful germs.

The right combination of good bacteria is what makes the difference

Among others, the lactobacilli and bifidobacteria that produce lactic acid are important for our gut health. They account for half of the microorganisms that live in the large intestine and ensure an acidic environment. As a waste product of their digestion, gut bacteria excrete fats, gases and lactic acids that are important for our health.

Lactic acid promotes the formation of a natural mucous barrier that is virtually impregnable for most pathogens, including salmonella. And if they do get past this mucous barrier, they are faced with a huge array of benign bacteria that have populated our intestinal wall. The wall is so densely packed, in fact, that the pathogenic invaders have little room to spread.

Our microbiota – a nutritionally sensitive ecosystem

Establishing healthy microbiota is a complex matter. The body and bacteria form a sensitive ecosystem together. Our body provides the space to live and the required nutrition. The lactobacilli and bifidobacteria important for our gut health are exceptionally choosy when it comes to their food. They rely on prebiotics – the scientific name for their food. Prebiotics consist of specific, non-digestible fibre or complex sugars that are found in fibre-rich plant foodstuffs such as vegetables, fruit, cereal products and in breast milk.

The right diet helps babies – and these tiny health workers – to get the best start in life.



«Our gut bacteria strengthen the immune system and protect us from infections. They are also responsible for forming a multitude of enzymes and providing important micronutrients.»

«Vital for children: the fast development of healthy and strong microbiota.»

After they are born, babies quickly need to create a balanced microbiota. The good gut bacteria are an important part of the human immune system and offer life-long protection for the baby from disease-causing pathogens. The first solid foods play a vital role here.

In the womb, babies hardly ever come into contact with pathogenic bacteria or viruses. As a result, our little ones still have weak natural defences and the immune system has to develop quickly after birth. Mothers ensure an excellent start, providing their babies with their first strains of bacteria through the placenta while they are still in the womb. These become important for creating and developing the microbiota.

For natural births, babies pick up a further 900 types of bacteria in the mother's birth canal. Here, they pass vertically from mother to child and provide a protective shield around the infant. It is then important to increase the number of health-promoting bacteria as quickly as possible. In adults, a healthy microbiota comprises around 400 different strains of bacteria, which includes approximately 30,000 to 50,000 different types.

Prebiotics – an important ingredient in infant nutrition.

Ideally, babies receive prebiotics in breast milk and these promote the growth of intestine-friendly strains of bacteria. But what happens when a baby can't be breast fed? In this case, it is recommended that the child is given infant or follow-on formula enriched with specific prebiotics, like those produced by HOCHDORF. This should alleviate any parental concerns. The baby and its tiny health workers can also benefit from good nutrition with infant formula.

Our infant formula only contains easily digestible galacto-oligosaccharides (GOS), which rarely lead to wind in babies. GOS are prebiotics which occur in a similar form in mother's milk and display the same positive characteristics. This includes, e.g., promoting growth of GI-tract enhancing bacteria and the development of the immune system.

Infant formula can promote the growth of bacteria

Some studies have shown that infant or follow-on formula enriched with galacto-oligosaccharides promote the growth of lactobacilli and bifidobacteria.

Breast milk is undisputedly the healthiest option for babies. But not all mothers are able or willing to breast feed. At HOCHDORF, we do our best to ensure that our infant formula comes as close as possible to breast milk.





Prebiotics – a delicacy for healthy gut bacteria.

Prebiotics are indigestible, fermentable polysaccharides and oligosaccharides or carbohydrates that are made up of several monosaccharides (simple sugars) which can be the same or different. Prebiotics are the nutritional basis for healthy gut bacteria. Bifidobacteria, which inhabit the gut in larger numbers, prefer oligosaccharides.

Breast milk contains many water soluble oligosaccharides so it makes sense to use an infant or follow-on formula enriched with oligosaccharides like GOS and FOS. GOS are galacto-oligosaccharides which are produced from lactose with the help of enzymes. FOS are fructooligosaccharides, which are derived from plants.

Fermentable polysaccharides and oligosaccharides are mainly found in oats, barley, fruit and vegetables.

NUTRITION IN EARLY CHILDHOOD

«The microbiota change quickly with the move to solid foods.»

Balanced solid foods – the basis for gut health

The move from breast milk or formula to follow-on formula and solid foods has an important influence on the composition of microbiota in small children. In some circumstances this transition phase can have a life-long impact on the health of the child's microbiota. A balanced diet creates a good basis for developing healthy microbiota. For children and adults, a healthy diet should be as varied and natural as possible. This ensures the sufficient supply of all essential nutrients, which also includes prebiotics in its widest sense.

A healthy diet also means keeping foods with unnecessary added sugar to a minimum. Not all types of sugar have a prebiotic effect. The important types of sugar for gut bacteria are contained in whole-grain products, fruit, vegetables and nuts.

Kids' Food from HOCHDORF – healthy and practical

Freshly prepared meals and healthy snacks are best for our children. However, sometimes there is simply no time for chopping and cooking. Now there are ways to provide small children with healthy fibre – and therefore prebiotics – when time is short.

At HOCHDORF, for example, we offer ingredients for weaning foods based on milk powders that also contain additional cereals, vegetables and fruits, depending on the variety. The products just need to be mixed with warm water to produce a healthy baby porridge with sufficient prebiotics. Our cereal-based crisps and our banana flips are suitable for children over six months. For children over the age of three, we also recommend the fruit and vegetable snacks from HOCHDORF's newest subsidiary, Zifru Trockenprodukte GmbH. The Zifru products are made using a special drying process: the fruit and vegetables retain the typical, distinctive flavour of their variety with all the nutrition and a unique crispy texture. All the power of nature – concentrated in the Zifru products. They are free from sugar, salt and any other additives.

Our Marbacher Ölmühle division, also based in Germany, offers healthy ingredients for children too. Our organic rapeseed oil is excellent for preparing the first solid foods.

Healthy nutrition for small children doesn't stop at home – it is possible anywhere. We offer solutions that meet today's nutritional trends and lifestyle – healthy nutrition wherever and whenever we want.



«If certain prebiotics are missing, some of the gut-friendly bacteria starve, which leads to an imbalance between good and bad bacteria.»

Dairy Ingredients Division

! The Dairy Ingredients Division generated net sales revenue of CHF 405.1 million in 2017. The gross sales revenue of the individual companies predicted in the 2016 business year could not be reached, as already indicated in the interim report. The differing price trends were challenging in 2017 with record-high prices for milk fat and a price slump for milk proteins and skimmed milk powder. This led to slight advantages for our factory in Uckermark and big disadvantages for our factory in Lithuania. In Switzerland, milk fat prices fluctuated only minimally, whereas milk protein prices were significantly lower than in the previous year.

HOCHDORF Swiss Nutrition Ltd

In Switzerland, we processed virtually the same volume of liquid (especially milk and whey) as in the year before (409,009 tonnes in 2017 compared with 409,119 tonnes in 2016). Accordingly, plant utilisation was at a very high level throughout the year. The reduced «Schoggi Law» contributions and too little B milk for the contractually agreed export products had a considerable impact on our margin.

! At an association level, we pushed hard for a sensible «Schoggi Law» follow-on solution. The solution worked out in the industry was approved in the second half of the year by both parliamentary chambers by a clear majority. The new solution is to be introduced from 1 January 2019.

HOCHDORF Baltic Milk UAB

! As a result of the high Lithuanian milk prices and the low protein prices on the international market, we further reduced the processed milk volume. In 2017, we processed 45.6 million kg of milk in Medeikiai (previous year: 56.8 million kg; -19.7%). The factory is currently under review. The strategic benefit of the factory is now much less as a result of the development of the HOCHDORF Group. In addition, the high milk price in our sales markets, which is influenced by agricultural policy, is not viable at present, or only to a limited extent.

Uckermärker Milch GmbH

We found the record-high prices for milk fat and the price slump for milk proteins and skimmed milk powder challenging. This was especially the case when it came to contracting and setting buying and selling prices. All in all, we have been able to cope well with these tasks. The processed volume of liquid (especially milk, cream, buttermilk), however, fell to 193.8 million kg (previous year: 271.7 million kg; -28.7%). The main reason for this was the significantly lower curd production year on year. Butter and powder production was also down. On the other hand, we produced more buttermilk, as planned.



At the beginning of the year, we defined our future strategy. In the area of powder production, we want to develop and market specialist powder with a higher added value. We successfully conducted our first test production of specialist powders in the second half of the year. The partial discontinuation of curd production from the end of October 2017 was crucial for us. In the meantime, new opportunities have opened up for this production area.



The test production runs for special powder with a higher added value were successful.

Outlook

In the first half-year, we are expecting a larger volume of milk in comparison with the previous year as a result of the still relatively high milk prices. Therefore, pressure on milk prices is likely to increase again in the second half of the year. We expect net sales revenue in the range of CHF 350 to 380 million over the whole business division.

In Switzerland, we shall gear the milk volumes of the individual milk segments (A, B or C milk) even more rigidly to our actual needs. Moreover, the project for improving the margin will be continued. We are expecting an improvement in earnings figures in 2018 with cost-cutting measures and efforts to streamline our product range and develop products.

The butter business and the buttermilk business will continue at the normal level in 2018 at our factory in Prenzlau. Contrary to our communication in mid-2017, we can continue curd production at a lower volume level, thanks to our cooperation with a new partner. The volumes are, however, sufficient to make it worthwhile for the factory as a whole to continue curd production. In addition, we received and produced the first orders of specialist powders and delivered them to customers at the beginning of the year. We expect to start initial commercial production of other specialist milk powders over the course of the year.



Curd production will continue at a lower volume thanks to our cooperation with a new partner.



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 milk plants will be optimised and the product portfolio amalgamated. 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.»

Product range

Enriched milk powder, label milk powder (kosher, halal), 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.

	2017	2016	2015	2014
Net sales revenue (in TCHF)	405,131	393,099	415,379*	298,563*
Share of revenue abroad (in %)	55.4	55.1	55.2	26.1
Volumes sold (in tonnes)	165,846	212,421	216,511	80,737

* Gross sales revenue (in TCHF)



Baby Care Division

The Baby Care Division achieved net sales revenue of CHF 168.8 million in 2017 (PY: CHF 123.0 million; +37.2%). This jump in growth can be attributed to the majority shareholding in the Pharmalys companies. The gross sales revenue is within the range of CHF 170 – 180 million predicted in the 2016 Annual Report.

HOCHDORF Swiss Nutrition Ltd

As predicted in the interim report, the lines for the production of infant formula in the second half-year were well to very well utilised, and were at the previous year's high level. As stated, the company was unable to make up for the loss of turnover in the first six months that was mentioned in the interim report.

Investment in the new production and filling lines at the Sulgen site progressed with a high degree of intensity. Our efforts to acquire new customers to utilise the new capacities were also successful. When marketing infant formula, it is important to bear in mind the country-specific and sometimes complex laws and regulations. Nevertheless, some initial production has already been arranged for 2018. Further promising talks are also being held. Acquisition of new customers is one of our focal points in the current business year.

The new Chinese registration regulation for brands will lead to a significant reduction in the number of brand-name products available on the market. Accordingly, HOCHDORF will also be able to produce fewer brands for the Chinese market. With the focus on fewer brands, we are however expecting to supply significantly larger volumes in the medium term.

Pharmalys Group

In the past business year, Primalac products were launched in Cameroon and Algeria. Swisslac infant formula is now available in Syria, Bahrain and Lebanon. Besides the main business of milk-based infant formula, cereals were also introduced under the Primalac brand in Iraq, Lebanon, Mauritania, West Africa and Saudi Arabia.

Cooperation with HOCHDORF was intensified in 2017. A tremendous amount of work has been done in the area of IT systems and administration, and the majority of the integration can now be regarded as complete.



Baby Care was able to tap into new markets.

Outlook

Towards the end of the first half-year, the new production and filling capacities were available for commercial production. The acquisition of new customers and further market penetration into various markets of the Pharmalys Group will form the focus of marketing and sales in the current business year. As a result of the newly created capacities and sales efforts, we expect higher net sales revenue in 2018 compared with the previous year, in the range of CHF 220 – 230 million.

HOCHDORF Swiss Nutrition Ltd pressed ahead with the development of new EU formulations in 2017. The aim is to introduce the new products on the market in the second half of 2018, both for the Pharmalys Group and for some of our other customers.



Pharmalys plans to enter various markets with the Primalac and Swisslac brands, which are now very well-known in Africa. Confidence in the two brands on the part of doctors, pharmacists and consumers is growing. For this reason, it makes sense to expand the product range.



HOCHDORF and Pharmalys are participating in Espghan, an important international convention for paediatricians.

Some joint marketing by HOCHDORF and Pharmalys is also planned in the current business year. Hence, in May 2018, we shall be presenting our products for the first time at our booth at ESPGHAN (European Society for Paediatric Gastroenterology Hepatology and Nutrition), a congress for paediatricians. This year, the congress is being held in Geneva, Switzerland. We aim to use this opportunity to raise awareness of Pharmalys products with paediatricians.



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 with services such as sales and marketing training, as requested. 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. Pharmalys Laboratories SA markets premium infant formula and other products under the Primalac and Swisslac brands.»



Product range

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

	2017	2016	2015	2014
Net sales revenue (in TCHF)	168,751	123,029	110,417*	109,988*
Share of revenue abroad (in %)	95.8	95.5	91.7	91.3
Volumes sold (in tonnes)	16,751	17,159	16,763	15,651

* Gross sales revenue (in TCHF)

Cereals & Ingredients Division



In this division overall, we achieved slight growth of +4.6% compared with the previous year with net sales revenue of CHF 26.6 million (PY: CHF 25.5 million). Within the Cereals & Ingredients Division, in particular the growth in turnover of Marbacher Ölmühle GmbH, which, as announced a year ago, was well above the general sectoral growth rate, was very pleasing. The start-up company HOCHDORF South Africa has also made progress and was able to increase sales significantly at a low level.

HOCHDORF Swiss Nutrition Ltd

We were very successful in the area of private labels with our Kids' Food products and sprinklers and were able to acquire some new customers. Some new products were also added.



Our employees received two awards recognizing their extraordinary willingness to serve.

Our employees should be particularly proud, not only of their marketing and sales successes, but also their outstanding willingness to serve. This spring, they received two awards from a major business partner, namely the «Best Service» award and the «Best Collaboration» award. We would like to thank the whole team.

In the area of marketing activities, we consolidated our efforts in relation to social media and inbound marketing. We also produced specialist articles and newsletters throughout the year. We also focused on our trade fair presence at the Fi Europe (Food Ingredients Europe) in Frankfurt. Our joint appearance with our subsidiaries Marbacher Ölmühle GmbH and Zifru Trockenprodukte GmbH was a great success. Our booth at the fair was overflowing with visitors at times, and we were able to acquire new and potential customers.

Marbacher Ölmühle GmbH

The pleasing turnover growth of Marbacher Ölmühle GmbH was made possible by extending production capacities. The supplementary production of oils and seed flours was successfully sold in the market. We were able to fully cover the continuing high demand for vegetable proteins and flours from organically grown seeds with our products. Our linseed flour made from linseed oil is held in very high regard due to its outstanding binding ability. Our sunflower flour is, on the other hand, a superb alternative for egg protein.



The additional production of oils and seed flours was successfully sold.

«We love taste» – our enthusiasm for outstanding oils, in terms of both taste and quality, was also rewarded this year! The experts at the Taste Awards awarded our organic almond oil two stars, and our golden linseed oil one star. To describe the exquisite taste and unique characteristics of our oils in a simple way, we have developed a special radar chart in cooperation with flavour experts and prepared corresponding sales literature.



At the Fi Europe in Frankfurt, we presented our organic, cold-pressed oils and finely ground seed and nut flours. The trade fair was a resounding success! Visitors were impressed by the quality and taste of our products.

Zifru Trockenprodukte GmbH

As of November 2017, following the acquisition of Zifru Trockenprodukte GmbH with its registered office in Zittau, Germany, the Cereals & Ingredients Division expanded its range to include healthy dried fruits and vegetables. The drying facility of Zifru Trockenprodukte GmbH is one of the largest of its kind in the world. The gentle drying technology preserves the valuable and healthy elements of the fruits and vegetables. In addition, the shape retention, colour and taste are all excellent. We should stress above all the unique crunchiness of the products. The integration of Zifru Trockenprodukte GmbH means that we can lay the foundations for optimum production and marketing of healthy children's snacks.



We see great potential in the products of Zifru Trockenprodukte GmbH.

We were able to present the new range and the benefits of the products at the end of November on the joint booth with Marbacher Ölmühle GmbH at the Fi Europe fair in Frankfurt. Visitors to the fair were simply amazed by the quality of the products.

Snapz Foods Ltd

At the same time as acquiring Zifru Trockenprodukte GmbH, we took over the Snapz brand and, to this end, founded Snapz Foods Ltd, with its registered office in Hochdorf. By acquiring the brand rights to Snapz, the HOCHDORF Group is rigorously pursuing its strategy of forward integration and the development and marketing of new high value-added products. Barahm Ajodani, Managing Director of Snapz Foods Ltd, has built up the brand and is an expert on the snack market.

HOCHDORF South Africa Ltd

In 2017, we were able to acquire new distribution partners, e.g. an airline that will be giving the individually packed Afrikoa chocolate to its passengers. We also invested in a new, larger production plant that we were able to put into operation in November. This means that the investment and development phase of the production infrastructure has been concluded. Another completed project is the development of a sugar-free type of chocolate for diabetics, with a market launch anticipated in 2018. We further increased the level of awareness of our chocolate at the «Good Food & Wine Show».



Outlook

2018 will be shaped by the integration of Zifru Trockenprodukte GmbH and the Snapz brand in the Cereals & Ingredients Division. A further focus will be on expanding our sales activities and on investments in order to acquire new customers and markets. The production plant in Zittau will be extended to include additional technologies and filling capacities in order to create an all-round children's food range and sell it on the world markets. All the aforementioned activities will involve us having to restructure our sales organisation.

HOCHDORF Swiss Nutrition Ltd will concentrate even more than before on the Private Label and Health Supplements segments. In the area of Health Supplements, we want to develop additional products and, where it makes sense, benefit from the distribution network of Pharmalys Laboratories SA.



We would like to invest in new customers and markets and concentrate more on the private label and health supplement areas.

Marketing activities will be reinforced, adapted and restructured for Zifru Trockenprodukte GmbH and the Snapz brand. This will also cover the sales literature and the website. We are also planning to invest in a revamped market presence and in social media activities in relation to the Snapz brand.

HOCHDORF South Afrika Ltd is seeking to boost its sales operation significantly in 2018 after expanding production. The plan is also to increase distribution of the chocolate for diabetics developed in 2017. This strategy will include the Pharmalys distribution network.

A few important trade fair appearances are also scheduled for 2018. For example, in February, Marbacher Ölmühle GmbH, Zifru Trockenprodukte GmbH and Snapz Foods Ltd appeared together for the first time at the BIOFACH. The BIOFACH is one of the world's leading fairs for organic food. The fair demonstrated that there is still a large demand for the products we offer. Healthy snacks and ingredients for creating healthy snacks and food continue to be greatly sought after on the market.



In March, we will be participating in the Natural Products Expo West & Engredea in California, USA, with the Snapz brand. The Natural Products Expo West & Engredea is world's largest trade fair in the area of natural, organic and healthy products. Around 80,000 visitors are expected to attend.



Thanks to our marketing and sales activities, we are anticipating a year-on-year increase in net sales revenue in 2018.



Strategy in brief

«The Cereals & Ingredients Division aims to develop into one of the leading manufacturers and marketers of unique food and ingredients in the healthy snacks, dried vegetables and fruits and kids' food segments (B2B and B2C). We also want to establish ourselves in the Private Label sector and with the Snapz brand. Across all our different products, we control the whole value chain wherever possible. We place high quality demands on the raw materials used and pursue maximum traceability. Therefore, we work closely with our suppliers. Marbacher Ölmühle GmbH focuses on organic vegetable oils and press cakes from organic seeds, and Zifru Trockenprodukte GmbH on healthy fruit and vegetable snacks and other specialities with a special crunchy touch. HOCHDORF South Africa Ltd develops, produces and sells high-quality chocolate to business customers and consumers for and in Africa.»

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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, cold-pressed vegetable oils, various types of vegetable flours from predominantly organic cultivation, dried fruits and vegetables and chocolate.

	2017	2016	2015	2014
Net sales revenue (in TCHF)	26,645	25,478	24,859*	17,913*
Share of revenue abroad (in %)	53.1	49.0	45.9	22.9
Quantities sold, in tonnes	7,902	7,474	8,547	3,733

* Gross sales revenue (in TCHF)

Financial Report

HOCHDORF remains on a growth course and posted a new record high for 2017 in terms of turnover, operating result (EBIT) and Group profit. This was despite a very difficult first half-year and the continuing challenging market environment in Europe. Net turnover increased by 10.9% to CHF 600.5 million. EBIT grew disproportionately by 89.7% to CHF 42.6 million. This trend proves the success of HOCHDORF's strategy, which is aimed at profitable growth and focused on moving towards closer contact with end customers.

A particular contributor to growth was the acquisition of Pharmalys Laboratories SA, which appeared in the income statement for the first time in 2017. The core business could not keep pace with this trend. In particular, the challenging market environment had a strongly negative impact in the area of Dairy Ingredients. Lower processing quantities and especially the developments concerning export funding («Schoggi law») squeezed earnings. In the area of Baby Care, the volume losses posted in the first half-year, as announced in the interim report, could no longer be made good. The second half-year was however very pleasing, working at high capacity utilisation. The area of Cereals & Ingredients continued to develop positively. The acquisition of Zifru Trockenprodukte GmbH and the formation of Snapz Foods Ltd enabled the extension of the product portfolio to include dried fruits and vegetables, supplementing and strengthening the entire HOCHDORF product range.

Difficult Europe

The European business mainly involves the areas of Dairy Ingredients and Cereals & Ingredients. To add to the aforementioned difficulties, there were also political restrictions in Lithuania preventing the determination of the price of milk according to market economy criteria. At the milk plant in Germany, the heavily fluctuating milk and fat prices led to major challenges in the market in regard to price-setting and contracting. On the other hand, the oil mill in Marbach continued to perform positively.

Positive development in the Middle East/Africa

Sales and earnings improved markedly in this region with the acquisition of Pharmalys. The potential in this field has far from been exhausted, and Pharmalys is constantly tapping into new markets and launching new products. The challenge here will be to ensure that the organisation can support the continuing rapid growth. It is gratifying that in addition to acquiring new markets, further growth can be achieved in the core markets. Furthermore, we also expect to be able to use Pharmalys's network for the Cereals & Ingredients products.

Cautious Asia

Asia is still the region with the largest market potential for Baby Care. As a result of the difficult legislative situation (especially China) and the associated uncertainty, HOCHDORF maintained a low profile in this market in 2017. The new Food Safety Law is also demanding re-registration for all brands. HOCHDORF is addressing this matter, although the costs involved are enormous. We are however planning to increase our commitment and achieve higher sales again in China in 2018.

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Report of the three
business areas

Page 11

Net sales revenue
by region





Increase in net turnover – higher operating expenses

The growth of HOCHDORF is also reflected in the development of gross profit, which increased from CHF 136.8 million to CHF 172.1 million. The new gross profit margin stands at 28.5% (previous year: 25.2%).

Operating expenditures are up 12.5% on the previous year. This however also includes prepayments relating to the new infant formula plant with tower 9, for which staff were already recruited and trained in 2017, and, in particular, the first-time inclusion of the Pharmalys companies. In addition, HOCHDORF has had to invest in the development and expansion of the sales organisation. The total number of employees rose year on year from 632 to 695.

EBIT at new record high

The operational profitability of HOCHDORF is continuing to develop positively. EBIT increased in 2017 by no less than 89.7% to CHF 42.6 million, mainly due to the continuing positive trend in the area of Baby Care and the associated acquisition of Pharmalys Laboratories SA, which will support the profitable development of the Group.

Financial result

The weakening of the Swiss franc, especially against the euro, has led to a positive financial result overall. It should be noted that the interest expense for the mandatory convertible bond and the hybrid bond in the Swiss GAAP FER financial statements will not be recorded in the income statement, but rather against the borrowed capital item with the sum of the discounted interest payments. The costs for launching the mandatory convertible bond and the hybrid bond are also not part of the income statement, and have been offset against equity.

Taxes

Tax costs on the operating result were in line with expectations. Here, the expense has increased accordingly due to the positive development of Pharmalys. In the reporting year, deferred taxes on newly incurred tax losses in the foreign companies were capitalised.



Cash flow and financing

Cash flow from operating activities was down year-on-year from CHF 24.2 million to CHF 6.0 million. On the other hand, cash flow from operating activities before changes in working capital increased from CHF 32.2 million to CHF 56.0 million, the main reason being the better operating business and the improvement in the financial result. The accounts receivable item, in particular, has increased considerably as a result of the expansion of business activities. Longer payment terms in the MEA (Middle East Africa) region are the main reason for this. The items are checked on an ongoing basis. Inventories have increased to a reasonable extent.

In the area of investments, more than CHF 89.0 million was spent on plants/buildings/intangible assets. By leaving out the contributions for an expansion of the Sulgen plant, it was possible to finance the remaining investments from the ongoing cash flow. In particular, construction of the new T9/tin line 2 is due to be completed in 2018.



Free cash flow in 2017 was negative, as expected, as a result of the new T9. We also anticipate negative free cash flow in 2018 due to the investments in the expansion of capacity and, in particular, the residual financing of the takeover of Pharmalys.

Net debt decreased from CHF 213.5 million in December 2016 to CHF 0 million. As a result of the refinancing via the hybrid bond no claims had been made on the syndicated loan by the end of the year. The hybrid loan is treated as equity and therefore does not have any adverse effect on net debt. The outstanding purchase price debt for Pharmalys is a non-interest-bearing debt and is therefore also not part of the net debt.



The equity ratio returned to normal from 10.8% at the end of 2016 to 53.1%. The reason for this is the mandatory convertible bond and the hybrid bond. The final purchase price for Pharmalys was determined at the end of 2017. The increase corresponds wholly to goodwill, which was offset against equity. In addition to the purchase agreement, a side letter was prepared as a result of which changes could still arise in favour of HOCHDORF.

The HOCHDORF Group's financing continues to provide a solid basis for the company's continued growth.

HOCHDORF has the potential to achieve further growth in all market regions. We are aware that political uncertainties and changed market conditions may have an impact on the companies' earnings position.

Marcel Gavillet
CFO

Key figures of the HOCHDORF Group

CHF 1,000	2017	2016	2015	2014	2013
Processed milk and whey in tonnes	650,017	741,770	761,240	506,963	454,647
Quantities produced including cream in tonnes	186,845	236,179	241,754	99,720	89,631
Turnover (net revenue from goods and services)	600,527	541,606	543,688	420,353	374,883
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	55,719	33,360	30,455	27,197	18,099
As % of production revenue	9.2%	6.1%	5.6%	6.4%	4.9%
Earnings before interest and taxes (EBIT)	42,616	22,464	20,146	20,016	10,298
As % of production revenue	7.1%	4.1%	3.7%	4.7%	2.8%
Earnings before taxes	45,856	22,377	15,137	17,849	6,328
As % of production revenue	7.6%	4.1%	2.8%	4.2%	1.7%
Net profit	40,846	19,406	13,024	16,139	6,063
As % of production revenue	6.8%	3.6%	2.4%	3.8%	1.6%
Personnel expenses	50,100	47,796	46,227	34,802	31,720
As % of production revenue	8.4%	8.8%	8.5%	8.2%	8.5%
Depreciation of tangible assets	12,336	10,386	9,972	6,782	7,086
as % of average net cash position	5.1%	5.6%	6.2%	6.1%	6.5%
Investments in fixed assets	84,788	42,217	22,211	16,952	3,957
as % of production revenue	14.0%	7.8%	4.1%	4.0%	1.1%
Earned Capital	56,035	32,213	24,870	25,310	18,126
in % of net sales revenue	9.3%	5.9%	4.6%	6.0%	4.9%
Cash flow from operating activities (cash flow)	6,019	24,227	19,011	20,546	18,196
as % of net sales revenue	1.0%	4.5%	3.5%	4.9%	4.9%
Free cash flow (loss)	-84,078	-33,519	-3,736	-11,903	13,846
Equity ratio	53.1%	10.8%	56.6%	43.2%	42.6%
Interest cover (EBIT/interest expenses net)	32.3	19.2	11.0	8.6	3.1
Number of shares, outstanding, in units	1,434,760	1,434,760	1,434,760	1,070,922	900,000
Earnings per share in CHF	18.43	14.12	11.73	17.45	6.95
Earned Capital per share in CHF	39.06	22.45	17.33	23.63	20.14
Dividend	40%	38%	37%	37%	32%
Payout ratio	21.51%	27.35%	39.26%	24.55%	47.50%
Share price as at 31.12. in CHF	286.25	309.75	168.70	138.00	104.00
Dividend return	1.40%	1.23%	2.19%	2.68%	3.08%
Price/earnings (P/E) ratio	15.5	21.9	14.4	7.9	15.0
Market capitalisation	410,700	444,417	242,044	147,787	93,600
Staffing levels as at 31.12.	695	633	625	573	362

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 implemented a risk management system for all Group companies.

HOCHDORF carries out a risk assessment of all business activities and balance sheet items at annual meetings based on a standardised process. Each identified risk is evaluated in terms of the possible level of damage that could be expected should the loss event occur. As a result we set objectives and take effective measures from this to counteract the respective risks. The results from the risk process are summarised in a report to the Board of Directors and the Group Management. The risk management of the Group is documented continuously and reviewed to ensure its suitability for purpose.

Major projects of a strategic nature are managed within the HOCHDORF Group within the scope of project management. Part of the project management involves the ongoing recognition, monitoring and proactive correction of risks. Responsibility for strategic projects and therefore also for risk management always lies with a member of Group Management.

Risk assessment

Regulatory and political environment: The HOCHDORF Group is dependent upon the regulatory and political environment. Changes could have a negative impact on business activities, the financial situation and/or the profitability of the HOCHDORF Group (e.g. negotiations with the World Trade Organization or negotiations with the European Union in connection with the agricultural free trade agreement). They could result in high price and volume volatility on the procurement and sales markets. HOCHDORF monitors economic and political developments in the individual countries to keep the procurement and sales risks to a minimum.

Quality monitoring: The continuously rising demands of our customers and the increasing regulation are creating more and more new challenges for quality assurance, which is why HOCHDORF has developed appropriate systems and testing standards. Quality assurance is carried out in close cooperation with customers, suppliers and our in-house procurement and production departments. Deviations and defects detected during quality checks are regularly analysed, documented and discussed with the parties concerned. These measures serve to minimise quality-related risks from the outset.

IT protection: Unauthorised access to data, misuse of data or system, failures can cause considerable disruption to the operational process. To prevent this, technical measures such as access authorisation, virus scanners and firewall and backup systems are used. Moreover, the operation of systems has been outsourced to an external data centre, enabling our systems to be continuously assessed and adjusted to current requirements. There is a contingency concept involving daily backup copies and mirroring of data. Internal guidelines regulate the handling of hardware and software.

Financial risks: The HOCHDORF Group is exposed to various financial risks in the course of its international activities. These include exchange rate and interest rate risks as well as credit, liquidity and capital risks. The individual risks are minimised by means of continuous checks and controls. Coordinating and managing financial needs as well as ensuring financial independence are a top priority for reducing financial risks. The objective is optimal capital procurement as well as a liquidity position oriented towards payment obligations.

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. 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

The Internal Audit of the HOCHDORF Group is outsourced and is carried out by PricewaterhouseCoopers with the support of experts from the finance and accounting departments. 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.

Ultimately the risk policy of the HOCHDORF Group includes hedging risks by means of comprehensive and efficient insurance cover. An international insurance programme in the area of liability, property insurance and transport serves to achieve this.

«Following the acquisition of Zifru Trockenprodukte GmbH, the Cereals & Ingredients Division expanded its product range to include healthy dried fruits and vegetables. The acquisition of the Snapz brand falls under the umbrella of forward integration.»

Corporate Governance

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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 on Information Relating to Corporate Governance (RLCG).

1. Group structure and shareholders

1.1. Group structure as at 31 December 2017

The Group structure of the HOCHDORF Group (hereinafter referred to as «HOCHDORF») is detailed on the following page. All shareholdings are listed on page 70 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. The purpose of the Group structure is to provide the best possible support for the company's business activities within an efficient legal, financial and strategic framework. The structure should therefore be as simple as possible and transparent for outside parties

1.2. Significant shareholders

Significant shareholders with more than 3% of the voting rights are listed on page 68 of the Annual Report. Various notifications were received in the reporting period in accordance with Article 120 of the Swiss Financial Market Infrastructure Act (FMIA). Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group within the meaning of Article 120 FMIA and hold 5.35% of the capital and the voting rights (previous year 5.35%). Taaleri plc, Helsinki, Finland, and Taaleri Fund Management Ltd, Helsinki, Finland, form a group within the meaning of Article 120 FMIA and hold 3.14% of the capital and the voting rights via their funds Taaleri Micro Rhein Fund and Taaleri Rhein Value SICAF Fund (previous year < 3%). Gebrüder Maurer GmbH, Zenith Gewerbepark GmbH, Maurer-Bertschi GmbH, Maurer-Schöni GmbH, all based in Hunzenschwil, form a group within the meaning of Article 120 FMIA and hold 3.01% of the capital and the voting rights (previous year < 3%). The disclosure notifications in connection with shareholdings in HOCHDORF Holding Ltd are published on the electronic publication platform of SIX Swiss Exchange and

can be accessed via the search page of the disclosure office using the following Web link: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

HOCHDORF Holding Ltd is not aware of any other shareholders or groups of shareholders that held 3% or more of the total voting rights of HOCHDORF Holding Ltd. as at 31 December 2017.

1.3. Cross-investments

There are no cross-investments with other companies involving capital or voting rights.

2. Capital structure

2.1. Share capital

As at 31.12.2017, 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 preferential rights. The company has issued neither dividend-rights certificates nor profit participation certificates.

2.2. Conditional and approved capital

As at 31 December 2017, HOCHDORF Holding Ltd had conditional share capital amounting to a nominal total of no more than CHF 7,173,800 or no more than 717,380 registered shares of a nominal value of CHF 10. This is reserved for the outstanding mandatory convertible bond that runs from 30.03.2017 to 30.03.2020.

As at 31 December 2017, HOCHDORF Holding Ltd had no authorised capital.

2.3. Capital changes

An overview of capital changes can be found on page 70 of the Annual Report.

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 %	Marbacher Ölmühle GmbH DE-71672 Marbach EUR 2,000,000	100 % Schweiz. Milch-Gesellschaft AG 6281 Hochdorf CHF 100,000
65 %	Snapz Foods AG 6281 Hochdorf CHF 100,000	60 % HOCHDORF Americas Ltd UY-11000 Montevideo UYU 3,283,200
51 %	Pharmalys Laboratories SA 6281 Hochdorf CHF 100,000	51 % Pharmalys Africa S.à.r.l. TN-1053 Beb Bhar Tunis TND 120,000
26 %	Ostmilch Handels GmbH DE-61348 Bad Homburg EUR 1,000,000	26 % Ostmilch Frischdienst Magdeburg GmbH DE-39179 Meitzendorf EUR 25,000
		60 % Uckermärker Milch GmbH DE-17291 Prenzlau EUR 10,000,000
		51 % Pharmalys Tunisie S.à.r.l. TN-4020 Kondar Sousse TND 3,300,000
		26 % Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG DE-09661 Schlegel EUR 51,129.20

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. An entry 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.

2.5 Mandatory convertible bond

In 2017 HOCHDORF Holding Ltd issued a mandatory convertible bond for a nominal amount of CHF 218.49 million. The interest rate is 3.5% for the entire term from 30.03.2017 to 30.03.2020. The conversion period runs from 03.01.2018 to 13.03.2020. The conversion price is CHF 304.67. A nominal figure of CHF 5,000 authorises the subscription of 16.41 HOCHDORF Holding Ltd registered shares. Fractions are paid out in cash.

2.6 Hybrid capital

In 2017 HOCHDORF Holding Ltd issued a hybrid bond for a nominal amount of CHF 125 million. It is a perpetual subordinated bond which pays interest with a coupon rate of 2.5%. The hybrid bond has its first call date after five-and-a-half years. If this is not exercised, the amount of interest payable increases (step-up).

3. Board of Directors

3.1. Members of the Board of Directors

The Board of Directors of HOCHDORF Holding Ltd consisted of seven non-executive members until the ordinary Annual General Meeting 2017, and of six after the ordinary Annual General Meeting 2017. Michiel de Ruiter was a member of the management until 30 April 2015 as Managing Director Baby Care and is therefore considered as an executive member of the Board of Directors. None of the other members of the Board of Directors previously belonged to 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 Annual 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, any new members of the Board of Directors and the Chairman 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, Josef Leu (Chairman) and Meike Bütikofer (Member) resigned from the board and Ulrike Sailer was elected to the board at the ordinary Annual General Meeting of 5 May 2017. Dr Daniel Suter was elected as the new Chairman. No notifications of resignation were received at the 2018 Annual General Meeting.

Name	Born	Nationality	Member since	Elected in	Elected until
Dr Daniel Suter, Chairman	1955	Swiss	2016	2017	2018
Dr Anton von Weissenfluh, Vice Chairman	1956	Swiss	2005	2017	2018
Michiel de Ruiter	1962	Dutch	2016	2017	2018
Dr Walter Locher	1955	Swiss	2014	2017	2018
Ulrike Sailer	1967	German	2017	2017	2018
Niklaus Sauter	1962	Swiss	2014	2017	2018
Prof Dr Holger Karl-Herbert Till	1962	German	2014	2017	2018

3.2. Professional background and other activities and interests

Dr Daniel Suter

1955; **Place of residence:** Bottmingen BL. **Member of the Board of Directors since:** 2016. **Chairman since:** 2017. **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:** From 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.

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, 11 years as CEO Chocolats Halba. **Professional activity:** Since 2017 CEO Coop Production Centre Pratteln, site management. **Other activities:** Board Chair (VRP) of Chocolats Halba Honduras since 2014; since 2017 member of the strategic R&D agenda 2030 for the Swiss food industry.

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 experience:** 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.

Ulrike Sailer

1967; **Place of residence:** Hamburg/Germany. **Member of the Board of Directors since:** 2017. **Training/degree:** Business graduate. **Professional background:** Business studies at the University of Augsburg; 1988 to 1992; 1994 to 2007 various management positions in sales, marketing, trade marketing and category management at Kraft Foods Germany; 2007 to 2010 Head of Sales Traditional Trade at Kraft Foods Germany; 2010 to 2015 positions as «Director Sales Traditional Trade Europe», «Director Sales Activation, Strategy and Business Change Europe and China» at Mondelēz International; 2015 to 2016 Country Manager at Jacobs Douwe Egberts in Denmark. **Professional activity:** Since 2017 Director Sales International at Tchibo, Germany. **Other activities:** None.

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 three other SME.

Prof Dr Holger Karl-Herbert Till

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

In conjunction with the area of digitisation, three members of the Board of Directors possess current knowledge and experience from their professional activities, in particular with the digitisation of important business processes along the entire value chain, in the implementation of Industry 4.0 solutions and in the digitization of marketing and online communications.

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); and additionally
- b) five mandates as board member or as 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) ten 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 a year and as often as business requires. In 2017, the Board of Directors met for six regular meetings, one extraordinary meeting and one full-day strategy day with the Group Management. In addition, the Chairman of the Board of Directors meets with the CEO for work sessions. 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 company objectives and identifies opportunities and risks. It also appoints the members of Group Management. The Board of Directors has a 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 casting 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: Niklaus Sauter (Chairman), Dr Daniel Suter, Dr Walter Locher. 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 2017, the Audit Committee met five times. In addition to the standard agenda items, a special audit was conducted by the outsourced Internal Audit (PWC) as part of risk management, covering the area of human resources.

Personnel and Remuneration Committee

Members: Dr Anton von Weissenfluh (Chairman), Niklaus Sauter, Dr Walter Locher. The main tasks 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: Michiel de Ruiter (Chairman), Ulrike Sailer, Prof Dr Holger Karl-Herbert Till. The main tasks of the committee are:

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

The Market and Strategy Committee met three times.

3.5. Group Management and competencies

The Board of Directors is responsible for the overall management of the company and the Group, as well as the supervision of the Group Management. 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 Annual 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 the 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 Annual 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 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 Group Management. The chair leads, monitors and coordinates the members of 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 CEO has the following duties:

- › 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 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 and/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 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 Group Management

At all meetings, the Chairman, the Committee Chairs, the CEO, the CFO and, depending on the agenda item, other members of Group Management inform the Board of Directors on matters concerning the business development, financial situation and key business occurrences. The Chairman is regularly informed by the CEO. The Board of Directors receives all 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 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. Members of Group Management

As at 31 December 2017, Group Management consisted of Dr Thomas Eisenring (CEO), Marcel Gavillet (CFO), Christoph Peterzell (COO), Werner Schweizer (Managing Director Dairy Ingredients), Frank Hoogland (Managing Director Baby Care), Michel Burla (Managing Director Cereals & Ingredients), Fons Togtema (Chief Sales Officer) and Karl Gschwend (Managing Director Strategic Projects).

4.2. Professional background and other activities and interests

Dr Thomas Eisenring

1965; Swiss citizen. **Place of residence:** Winterthur ZH. **Position:** CEO since 2013. **Training/degree:** Mechanic, Dr. oec. University of St. Gallen. **Professional experience:** 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. **Additional responsibilities:** Chairman of the Boards of Directors of all HOCHDORF subsidiaries in Switzerland and of HOCHDORF Baltic Milk UAB; Managing Director of Zifru Trockenprodukte GmbH, Zittau, Germany, and 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. **Position:** CFO since 2003. **Training/degree:** University of applied sciences FH; MAS Corporate Finance; Certified IFRS Accountant. **Professional background:** 1996 to 1999 Head of Finance and Accounting at Nutriswiss AG, Lyss, then Managing Director from 1999 to 2003. **Other activities:** Active as member of the Board of Directors of the subsidiaries in Switzerland and abroad; Managing Director of the HOCHDORF Group pension fund.

Christoph Peterzell

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

Michel Burla

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

Dr Karl W. Gschwend

1953; Swiss citizen. **Place of residence:** Altnau TG. **Position:** Managing Director Strategic Projects since 1998. **Training/degree:** Studies in natural sciences at ETH Zurich; doctorate at the Institute for Biotechnology at ETH Zurich in 1982; SKU (Swiss Courses in Enterprise Management), diploma in strategic business management. **Professional background:** 1983 to 1986 Head of the Biological Equipment Construction department, Giovanola Frères SA, Monthey; 1986 to 1997 Management of Obipektin AG, Bischofszell; 1998 to 2003 Plant Manager HOCHDORF Nutritec Ltd, Hochdorf; 2003 to 2005 Managing Director of Schweiz. 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); 2008 to 2014 board



member of the Society of Milk Science, 2010 to 2011 Chair; 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; since 2015: Industrial Advisory Board, Dept. of Health Sciences and Technology (D-HEST) ETH Zurich and member of the «food technology» strategy committee of the Swiss Academy of Technical Sciences.

Frank Hoogland

1972; Dutch citizen. **Place of residence:** Horgen ZH; **Position:** Managing Director Baby Care, since January 2017. **Training/degree:** MAS in Business Economics with major in marketing & marketing research at Tilburg University, Netherlands. **Professional experience:** 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:** Member of the Board of Directors of Pharnalys Laboratories SA.

Werner Schweizer

1955; Swiss citizen. **Place of residence:** Kriens LU **Position:** Managing Director Dairy Ingredients since 2006. **Training/degree:** Studies in food sciences at ETH Zurich, awarded dipl. LM Ing. ETH Zurich in 1979; SKU (Swiss Courses in Enterprise Management), diploma in strategic business management in 2009. **Professional background:** 1979 to 1982 specialist teacher at the dairy science school Sursee; 1983 to 1987 Nestec, Head of Production Nestlé Lanka, Sri Lanka; 1988 to 1990 Laiteries Réunies de Genève, Head of QM and E&A; 1991 to 1997 QM Schweizer & Stierli AG, Partner, Lucerne; 1998 to 2005 Head of Marketing Industry/Head of

Business Segment Milk HOCHDORF Nutritec Ltd.

Other activities: Board member of the Swiss Milk Industry Association (vmi); Board member of the Milk Sector Organisation; Managing Director of HOCHDORF Baltic Milk UAB.

Fons Togtema

1964; Dutch citizen. **Place of residence:** Retschwil LU. **Position:** Chief Sales Officer, since January 2017. **Training/degree:** Agricultural engineer with major in economics at the University of Prof Education, Netherlands. **Professional experience:** 1997 to 1998 Commercial Director Europe, Universal Dehydrates (now Sensinent Technologies Corp.), France; 1998 to 2000 Business Unit Director Benelux, Schering Plough Animal Health, Netherlands/Belgium; 2000 to 2006 Manager Business Development, Infant Nutrition, FrieslandCampina, Netherlands; 2006 to 2015 Sales Director Baby Care of HOCHDORF Swiss Nutrition Ltd, Switzerland; 2015 to 2016 Managing Director Baby Care of HOCHDORF Swiss Nutrition Ltd, Switzerland. **Other activities:** Member of the Board of Directors of HOCHDORF Americas Ltd.

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

- a) One mandate as board member or as member of other top executive or governing bodies of public companies pursuant to Art. 727 (1) no. 1 of the Swiss Code of Obligations (CO); and additionally
- 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

The relevant information can be found in the remuneration report.

6. Shareholders' rights of co-determination

6.1. Restrictions to voting rights and proxy voting

All shareholders recorded in the shareholder register with voting rights 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 addresses the assignment of the voting right to an independent proxy, as well as the ability to electronically cast a vote to the independent proxy.

6.2. Statutory quorum

The Annual 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 Annual 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 Annual General Meetings. Personal invitations to the Annual General Meeting are sent out in writing at least 20 days before the meeting.

6.4. Agenda

Invitations to submit items for the agenda and questions about the annual report are included with the invitation to the Annual General Meeting. Shareholders who represent shares with a nominal value of at least CHF 1 million may request that an item be added to the agenda. One or more shareholders who collectively represent at least 10% of the share capital may request that the Board of Directors calls an Annual General Meeting and/or that an item be added to the agenda.

6.5. Entries in the share register

The shareholder register is closed ten days prior to the Annual 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 Annual General Meeting and is also published in a timely manner in the financial calendar on the HOCHDORF Group website:

<http://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 within the meaning of Article 125 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 Annual General Meeting elects the auditor for terms of one year each. Ernst & Young Ltd, Lucerne, was elected auditor of HOCHDORF Holding Ltd and its subsidiaries for 2017. Ernst & Young Ltd has been the auditor since 2014. Bernadette Koch has been the chief 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 2017 amounted to approximately TCHF 192.

8.3. Additional fees

Additionally, expenses of TCHF 65 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 2017, 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 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:
<http://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>.

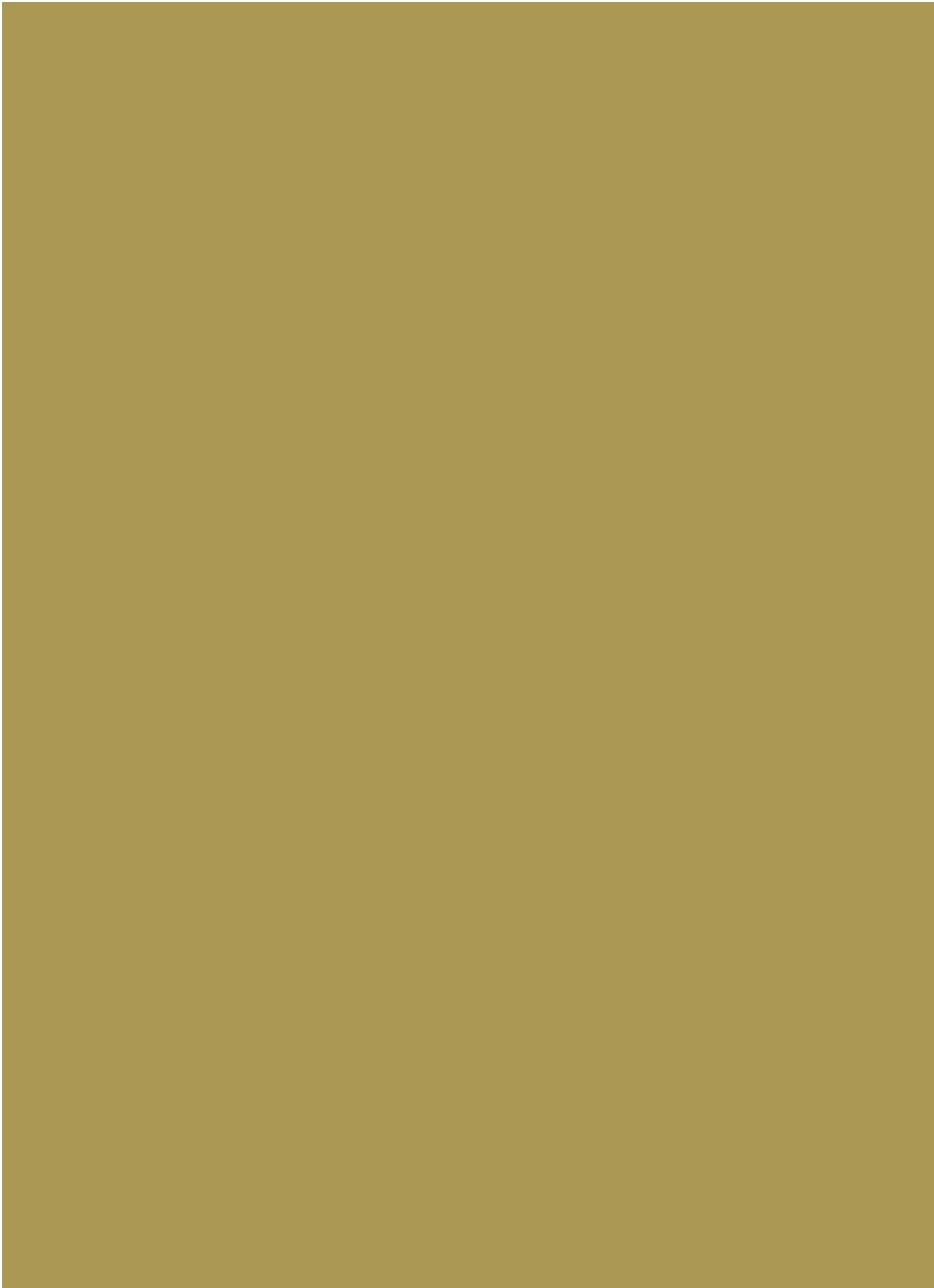
In 2017, HOCHDORF Holding Ltd underwent various reportable shareholding changes.

Contact for investor relations:

HOCHDORF Holding Ltd, Investor Relations,
Siedereistrasse 9, CH-6281 Hochdorf, Switzerland.
Tel. +41 41 914 65 62,
E-mail: ir@hochdorf.com.

The Annual General Meeting will take place on 4 May 2018. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by mail.

The next business results (half-year results 2018) will be published on 30 August 2018.



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Remuneration Report

The remuneration report summarises the key principles that determine the remuneration of the Board of Directors and Group Management and also explains the structure and extent 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 (ERCO)

Pursuant to the Ordinance Against Excessive Compensation (ERCO), the Annual General Meeting decides on the remuneration of the Board of Directors and Group Management. The Articles of Association contain a summary of the remuneration principles. 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
Maximum total amount of remuneration to be paid to the Board of Directors	Board of Directors	Annual General Meeting
Maximum total amount of remuneration to be paid to Group Management	Board of Directors	Annual General Meeting
Individual remuneration of the members of 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
Remuneration Report	Personnel and Remuneration Committee	Board of Directors

Each year, the Annual General Meeting separately votes on 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. The Annual General Meeting votes on the remuneration report on an advisory basis.

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 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. 20% of the fee, excluding expenses, is paid in the form of HOCHDORF Holding Ltd shares, which are subject to a three-year holding period. They are allocated at the volume-weighted average price of all transactions on the SIX on the allocation day. If a person departs from the Board of Directors, the shares are freely available immediately.

Remuneration of the Board of Directors in CHF	Remuneration	Social contributions	Expenses	2017	2016
Dr Daniel Suter, Chairman, AC, position starting 05.05.2017	120,417	17,470	5,000	142,887	49,256
Dr Anton von Weissenfluh, Vice Chairman, PRC	77,000	11,076	5,000	93,076	77,298
Michiel de Ruiter, MSC	63,792	9,173	5,159	78,124	5,353
Dr Walter Locher, AC, PRC	73,958	10,637	5,000	89,595	68,118
Ulrike Sailer, MSC, starting 05.05.2017	40,364	5,984	3,356	49,704	n/a
Niklaus Sauter, PRC, AC	78,792	11,335	5,000	95,127	75,003
Prof Dr Holger Karl-Herbert Till, MSC	62,500	8,988	5,000	76,488	63,527
Josef Leu, Chairman, PRC, until 05.05.2017	47,813	5,609	1,771	55,193	100,200
Meike Bütikofer, MSC, until 05.05.2017	22,844	3,182	1,771	27,797	79,175
Total	587,480	83,454	37,057	707,991	533,795

AC = Audit Committee; PRC = Personnel and Remuneration Committee MSC = Market and Strategy Committee

The Annual General Meeting on 5 May 2017 approved a total amount of CHF 710,000 for the current term of office until the 2018 AGM. This total amount will not be exceeded. The following remuneration is envisioned for the term of office starting with the 2018 Annual General Meeting, with social contributions being factored in at the flat rate of 15%. 20% of the remuneration will be paid out in the form of stock options with a vesting period of three years. If a person departs from the Board of Directors, the shares are freely available immediately.

Remuneration of the Board of Directors in CHF	Basic salary	Meetings Committees	Social contributions	Expenses	Total 2017
Dr Daniel Suter, Chairman, AC,	95,000	49,500	21,675	5,000	171,175
Dr Anton von Weissenfluh, Vice Chairman, PRC	65,000	12,000	11,550	5,000	93,550
Michiel de Ruiter, MSC	55,000	9,500	9,675	5,000	79,175
Dr Walter Locher, AC, PRC	55,000	22,500	11,625	5,000	94,125
Ulrike Sailer, MSC	55,000	7,500	9,375	5,000	76,875
Niklaus Sauter, AC, PRC	55,000	24,500	11,925	5,000	96,425
Prof Dr Holger Karl-Herbert Till, MSC	55,000	7,500	9,375	5,000	76,875
Total	435,000	133,000	85,200	35,000	688,200

The total amount for 2018 to be put to a vote comes to CHF 700,000, as rounded.

Remuneration of Group Management

Compensation paid to Group Management is composed of a fixed basic salary and variable, performance-related remuneration, with variable compensation for each position being based on the consolidated EBIT of the Group or – for the Managing Directors of the three business divisions – on the EBIT of the respective business area. Variable remuneration includes an upper limit for all members of 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 three 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. 20% of the variable remuneration is paid in the form of HOCHDORF Holding Ltd shares, which are subject to a three-year holding period. They are allocated at the volume-weighted average price of all transactions on the SIX on the allocation day. 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 2.0% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million. The employment agreement is concluded for an indefinite period of time, with a notice period of six months.

For all other members of Group Management, the general achievement of personal targets, as well as net profit, forms the basis for the decision on compensation. Variable remuneration is individual-specific. Depending on the business division and the position, it amounts to between 0.04% and 0.5% of the consolidated EBIT for the HOCHDORF Group, whereby this must amount to at least CHF 3.5 million, or between 0.6% and 3.5% of the EBIT generated by the individual's business division. 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 ERCO.

Remuneration paid to the CEO and Group Management

Remuneration paid to the CEO and Group Management	Group Management total		CEO	
In CHF (gross)	2017	2016	2017	2016
Basic salary ¹⁾	2,089,528	1,928,925	558,020	467,800
Variable remuneration	1,823,326	1,377,105	852,322	561,600
Social contributions, including employee pension	702,269	495,736	218,996	141,974
Other benefits ²⁾	177,200	175,303	28,000	28,000
Total	4,792,323	3,977,069	1,657,338	1,199,374
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.

The Annual General Meeting on 5 May 2017 approved a total amount of CHF 5,700,000 for the 2017 reporting year.

The profit-sharing model for Group Management was adjusted with effect from 1 January 2018. The variable remuneration is calculated on the EBIT only, after minority interests. This applies to the EBIT of the Group and to the EBIT of the business divisions. Furthermore, 30% of the variable remuneration will now be paid out in the form of HOCHDORF Holding Ltd shares (previously 20%). The other limits will continue to apply. The Group Management will be reduced from eight to seven members as a result of the retirement of Karl Gschwend as of 31 January 2018.

Based on contractual agreements and the calculation of variable remuneration using the budgeted results for 2018, the total amount for 2018 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)	2018	2018
Basic salary ¹⁾	1,967,258	608,000
Variable remuneration	1,515,337	828,046
Social contributions	638,465	229,034
Other benefits ²⁾	177,700	28,500
Total	4,298,760	1,693,580
Number of members of Group Management	7	

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 2018, a reserve of 10% was factored in, which amounts to about CHF 200,000 in additional variable remuneration.

The total amount for 2018 to be put to a vote comes to CHF 4,500,000, 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.

The main changes to the remuneration system in 2018 compared to 2017 are:

- › Change in the amount paid in shares from 20% to 30%
- › EBIT after minority interests as the basis of calculation

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

Josef Leu and Meike Bütikofer departed as Members of the Board of Directors on 5 May 2017. Their compensation is already listed in advance. There were no personnel changes in Group Management in 2017.

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		2017	2016
Dr Daniel Suter	Chairman, AC	296	160
Dr Anton von Weissenfluh	Vice-Chairman, PRC	1,355	1,300
Michiel de Ruiter	MSC	46	0
Dr Walter Locher	AC, PRC	1,553	1,400
Ulrike Sailer	MSC, starting 05.05.2017	104	n/a
Niklaus Sauter	PRC, AC	456	400
Prof Dr Holger Karl-Herbert Till	MSC	210	150
Josef Leu	Chairman, PRC, until 05.05.2017	n/a	1,550
Meike Bütikofer	MSC, until 05.05.2017	n/a	531
Total		4,020	5,491

AC = Audit Committee; PRC = Personnel and Remuneration Committee MSC = Market and Strategy Committee

Group Management		2017	2016
Dr Thomas Eisenring	CEO	1,243	825
Marcel Gavillet	CFO	1,301	1,230
Dr Karl Gschwend	Managing Director Strategic Projects	71	114
Werner Schweizer	Managing Director Dairy Ingredients	138	165
Michel Burla	Managing Director Cereals & Ingredients	36	300
Frank Hoogland	Managing Director Baby Care	71	0
Christoph Peterzell	COO	71	400
Fons Togtema	CSO	192	32
Total		3,123	3,066

Additional fees and remuneration

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

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.

To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 23 March 2018

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 2017. 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 56 to 60 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 2017 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd



Bernadette Koch
Licensed audit expert
(Auditor in charge)



Roman Ottiger
Licensed audit expert



Annual financial statement

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Consolidated balance sheet as at 31 December

		2017 CHF	In %	2016 CHF	In %
Assets					
Cash and cash equivalents	1)*	63,860,406	11.0%	67,707,898	15.9%
Accounts receivables	2)*	81,482,930	14.0%	58,868,481	13.8%
Accounts receivables from related parties	2)*	44,100,198	7.6%	8,420,706	2.0%
Accounts receivables from associated parties	2)*	1,556,325	0.3%	2,393,225	0.6%
Other receivables from related parties	2)*	155	0.0%	40,913	0.0%
Other short-term receivables	2)*	10,680,940	1.8%	5,624,557	1.3%
Inventories	3)*	55,444,588	9.5%	49,782,122	11.7%
Accrued income	4)*	21,554,817	3.7%	15,175,349	3.6%
Current assets		278,680,359	47.9%	208,013,251	48.9%
Property and plant		90,467,642	15.5%	72,438,655	17.0%
Other fixed assets		194,526,650	33.4%	130,538,589	30.7%
Total fixed assets	5)*	284,994,292	48.9%	202,977,245	47.7%
Shareholdings	6)*	2,639,109	0.5%	2,897,669	0.7%
Financial assets	7)*	10,192,369	1.8%	9,202,490	2.2%
Intangible assets	8)*	5,763,628	1.0%	2,383,628	0.6%
Non-current assets		303,589,399	52.1%	217,461,032	51.1%
Total assets		582,269,757	100.0%	425,474,283	100.0%
Liabilities					
Trade payables	9)*	74,830,462	12.9%	58,554,830	13.8%
Short-term financial liabilities	10)*	11,649,849	2.0%	9,132,437	2.1%
Other short-term liabilities to related parties	10)*	96,829,227	16.6%	54,300,508	12.8%
Other short-term liabilities	11)*	17,037,222	2.9%	12,784,274	3.0%
Accrued liabilities and deferred income	12)*	15,496,439	2.7%	4,651,986	1.1%
Current liabilities		215,843,200	37.1%	139,424,035	32.8%
Non-current financial liabilities	13)*	39,722,116	6.8%	120,731,978	28.4%
Non-current financial liabilities to related parties	13)*	0	0.0%	105,500,000	24.8%
Provisions	14)*	17,422,404	3.0%	14,013,721	3.3%
Non-current liabilities		57,144,520	9.8%	240,245,700	56.5%
Share capital		14,347,600	2.5%	14,347,600	3.4%
Own shares		-8,570,839	-1.5%	-5,145,813	-1.2%
Capital reserves		90,010,753	15.5%	96,730,882	22.7%
Mandatory convertible bond		198,935,822	34.2%	0	0.0%
Hybrid capital		107,588,513	18.5%	0	0.0%
Profit reserves		-147,992,298	-25.4%	-93,647,546	-22.0%
Minority interests		29,068,201	5.0%	13,588,365	3.2%
Earnings current year		25,894,285	4.4%	19,931,059	4.7%
Shareholders' equity	15)*	309,282,038	53.1%	45,804,548	10.8%
Total liabilities and equity		582,269,757	100.0%	425,474,283	100.0%

*Explanations in the notes

Consolidated income statement

		2017		2016	
		CHF	In %	CHF	In %
		01.01.2017 – 31.12.2017		01.01.2016 – 31.12.2016	
Net sales revenue	16)*	600,526,789	99.5%	541,605,778	99.8%
Other operating income	17)*	418,866	0.1%	550,933	0.1%
Change in inventories of semi-finished and finished products		2,793,543	0.5%	459,145	0.1%
Production revenue		603,739,199	100.0%	542,615,856	100.0%
Cost of materials and goods		-431,638,114	-71.5%	-405,839,451	-74.8%
Gross operating profit		172,101,085	28.5%	136,776,405	25.2%
Personnel expenses	18)*	-50,999,655	-8.4%	-47,795,519	-8.8%
Other operating expenses	19)*	-65,382,317	-10.8%	-55,620,644	-10.3%
Total operating expenses		-116,381,972	-19.3%	-103,416,164	-19.1%
EBITDA		55,719,112	9.2%	33,360,241	6.1%
Depreciation of fixed assets		-12,335,665	-2.0%	-10,386,286	-1.9%
Amortisation on intangible assets		-767,328	-0.1%	-509,951	-0.1%
EBIT		42,616,120	7.1%	22,464,004	4.1%
Income from associates and joint ventures	20)*	528,491	0.1%	520,525	0.1%
Financial result	20)*	2,755,750	0.5%	-568,567	-0.1%
Earnings before taxes (EBT)		45,900,360	7.6%	22,415,961	4.1%
Non-operating result	21)*	-34,209	0.0%	-30,513	0.0%
Extraordinary result	22)*	-10,518	0.0%	-8,756	0.0%
Earnings before taxes		45,855,633	7.6%	22,376,692	4.1%
Income taxes	23)*	-5,009,856	-0.8%	-2,970,915	-0.5%
Net profit		40,845,777	6.8%	19,405,777	3.6%
Attributable to:					
Parent company shareholders		25,894,285	4.3%	19,931,059	3.7%
Minority interests		14,951,493	2.5%	-525,282	-0.1%
Net profit		40,845,777	6.8%	19,405,777	3.6%
Earnings per share (basic)	24)*	18.43		14.12	
Earnings per share (diluted)	24)*	12.22		14.12	

*Explanations in the notes

Consolidated cash flow statement

	2017 CHF	2016 CHF
	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Net profit	40,845,777	19,405,777
Depreciation of fixed assets and amortisation of intangible assets	13,102,992	10,896,237
Net interest expense	1,318,488	418,959
Other non-cash adjustments	-1,020,866	-873,568
Change in short-term provisions	-5,056	0
Change in long-term provisions	1,488,652	2,882,025
Accounting losses (profits) from sales of fixed assets	46,740	4,227
Income from associates and joint ventures	258,559	-520,525
Cash flow from operating activities before changes in working capital	56,035,284	32,213,132
As % of net sales revenue	9.33%	5.94%
Change in trade receivables	-21,892,814	6,204,177
Change in trade receivables from related parties	-35,670,382	-1,783,062
Change in trade receivables from associated parties	1,001,590	-2,433,117
Change in other short-term receivables	-4,876,801	-1,507,476
Change in other short term receivables from related parties	40,758	0
Change in inventories	-3,895,466	-329,984
Change in prepayments	-6,374,108	3,023,954
Change in liabilities from deliveries and services	14,924,137	-7,844,725
Change in other short-term liabilities	4,048,085	-3,179,281
Change in other short-term liabilities to related parties	-8,037,378	309,938
Change in deferred income	10,716,136	-447,022
Change in net current assets	-50,016,242	-7,986,596
Cash flow from operating activities	6,019,042	24,226,536
As % of net sales revenue	1.00%	4.47%
Investments in fixed assets	-84,787,752	-42,217,131
Divestments of fixed assets	108,457	532,655
Investments in intangible assets	-4,221,053	-945,822
Divestments of intangible assets	87,409	0
Investments in/divestments of long-term financial assets	145,916	-12,827
Net cash flow from the purchase (-) / sale (+) of shareholdings	-1,431,333	-15,853,811
Interest and dividends received	835	750,945
Cash flow from investing activities	-90,097,521	-57,745,991
Free cash flow	-84,078,479	-33,519,455
As % of net sales revenue	-14.00%	-6.18%

Continuation of consolidated cash flow statement

	2017 CHF	2016 CHF
	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Change in short-term financial liabilities	-5,981,590	7,110,115
Change in long-term financial liabilities	-110,848,899	58,109,487
Additions/disposals of minority interests in capital and profit	-11,498	66,460
Mandatory convertible bond	87,485,000	0
Hybrid bond	124,173,032	0
Capital increase	-1,427,138	-104,266
Change in capital of subsidiaries	5,408	7,597
Sale (purchase) of own shares net cash flow	-3,263,073	-677,690
Interest paid	-4,870,133	-1,169,903
Dividend payments	-5,336,891	-5,211,195
Cash flow from financing activities	79,924,218	58,130,604
Currency translation	306,768	73,525
Net change in cash and cash equivalents	-3,847,492	24,684,674
Cash and cash equivalents at 1 January	67,707,898	43,023,224
Cash and cash equivalents at 31 December	63,860,406	67,707,898

Consolidated statement of changes in equity

	Share capital	Own shares	Capital reserves	Hybrid capital	Retained earnings	Accumulated currency translation differences	Total excl. minority interests	Minority interests	Total incl. minority interests
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2015	14,348	-3,814	101,490	0	76,972	-4,410	184,585	8,203	192,788
Change in the scope of consolidation								5,976	5,976
Goodwill/badwill from acquisition of shares of subsidiaries					-165,989		-165,989		-165,989
Allocation of capital contributions to free reserves			-5,309		5,309		0		0
Capital increase			-104				-104	40	-64
Acquisition of own shares		-4,625					-4,625		-4,625
Sale of own shares		3,294	654				3,947		3,947
Currency translation differences						-313	-313	-105	-418
Dividends					-5,216		-5,216		-5,216
Net profit from current period					19,931		19,931	-525	19,406
Equity as at 31.12.2016	14,348	-5,146	96,731	0	-68,993	-4,723	32,216	13,588	45,805
Change in the scope of consolidation							0	35	35
Goodwill/badwill from acquisition of shares of subsidiaries					-76,083		-76,083	-49	-76,131
Allocation of capital contributions to free reserves			-5,452		5,452		0		0
Capital increase			-1,430		3		-1,427	3	-1,424
Mandatory convertible bond			198,936				198,936		198,936
Hybrid bond				107,589			107,589		107,589
Acquisition of own shares		-3,640					-3,640		-3,640
Sale of own shares		215	162				377		377
Currency translation differences						1,689	1,689	539	2,228
Dividends					-5,337		-5,337		-5,337
Net profit from current period					25,894		25,894	14,951	40,846
Equity as at 31.12.2017	14,348¹⁾	-8,571	288,947	107,589	-119,064²⁾	-3,034	280,214	29,068	309,282

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

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

Shareholders >3%	Share	Prior year
ZMP Invest AG, Lucerne	14.51%	12.37%
Weiss Family and Innovent Holding AG, Wollerau	5.35%	5.35%
Stichting General Holdings, Amsterdam	4.08%	4.08%
Taaleri plc, Helsinki	3.14%	
Maurer Group, Hunzenschwil	3.01%	

Contingent capital

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

Changes

See explanations in the notes to the financial statements, figure 15.

Explanatory notes to the consolidated financial statement 2017 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 financial statement reflects the actual status of the Group's asset, financial and revenue position. The consolidated annual financial statement is based on the principle of historical purchase costs and is based on the annual financial statements for the group companies as of 31 December 2017, prepared according to standard principles.

Consolidation principles

Consolidated companies/consolidation method

The consolidated annual financial statement for the HOCHDORF Group comprises 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. Shareholdings 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 financial statement 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 liabilities 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	
	2017	2016	31.12.2017	31.12.2016
EUR 1	1.1119	1.0900	1.1702	1.0720
USD 1	0.9832	0.9888	0.9745	1.0164
TND 1	0.4082	0.4598	0.3902	0.4418
UYU 1	0.0343	0.0329	0.0339	0.0346
ZAR 1	0.0738	0.0676	0.0787	0.0743

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 31.12.2017	Capital share 31.12.2017	Capital share 31.12.2016
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 ¹⁾	Hochdorf CH	Trade	CHF	---	---	100%
HOCHDORF Baltic Milk UAB	Medeikiai LT	Production and trade	EUR	5,792	100%	100%
HOCHDORF Swiss Whey Ltd ²⁾	Hochdorf CH	Shell company	CHF	---	---	100%
Switzerland. Milch-Gesellschaft Ltd	Hochdorf CH	Shell company	CHF	100	100%	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	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.	Tunis TU	Marketing	TND	120	51%	51%
Pharmalys Laboratories SA, Hochdorf	Hochdorf CH	Trade	CHF	100	51%	51%
Pharmalys Tunisie S.à.r.l. ³⁾	Sousse TU	Production	TND	3,300	51%	49%
Snapz Foods Ltd ⁴⁾	Hochdorf CH	Trade	CHF	100	65%	n/a
Zifru Trockenprodukte GmbH ⁵⁾	Zittau DE	Production	EUR	200	100%	n/a

¹⁾ Merged with HOCHDORF Swiss Nutrition Ltd as at 01.01.17.

²⁾ Merged with HOCHDORF Swiss Nutrition Ltd as at 01.01.17.

³⁾ Purchase of 2% as of 14.03.2017 based on contractual assurance

⁴⁾ Formation on 19.10.2017.

⁵⁾ Purchase of 100% as of 31.10.2017

Associated companies	Location	Function	Currency	Capital in thousand 31.12.2017	Capital share 31.12.2017	Capital share 31.12.2016
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. Indications for possible impairment are given if payment is delayed, the customer is experiencing financial difficulties or recapitalisation or bankruptcy is likely. The value adjustments for doubtful accounts receivable are established based upon the difference between the nominal value of accounts receivable and the estimated net collectible amount. The amount of the respective estimated loss is recognized in the income statement within the item «Specific valuation adjustment on accounts receivable». As soon as a receivable becomes uncollectible, it is written off and charged against the item “Accounts receivable losses” under derecognition/adjustment of the item “Specific valuation adjustment on accounts receivables».

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 (PMC)
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 purchase or manufacturing cost (PMC) 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.

Prepayments and accrued income as well as accrued liabilities and deferred income

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 may be 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, licences and brand values. These are recognised at the lower of acquisition cost or utility value. They are depreciated over their economic service life on a straight line basis.

Equity/own shares

Own shares are recognised as a deduction from equity at cost. Profits and losses from transactions with own shares are recognised in capital reserves without affecting net income.

Equity/hybrid bond

The hybrid bond is a perpetual subordinated bond. The hybrid bond has its first call date after five-and-a-half years. This is the first possible call date in the case of the bond for HOCHDORF. If this is not exercised, the amount of interest payable increases (step-up). The hybrid bond is classified for the most part as equity. The issuing costs were deducted from the issue price. The obligations for the interest payable are discounted for the first five-and-a-half years (first call date) from the issue date. The conditions for the syndicated loan provide a basis of comparison for the interest rate. The discounted interest obligations are shown under short-term and long-term financial liabilities in accordance with their maturities. The interest payable is offset against the corresponding financial liabilities. Only the accrued interest of the relevant business year is recognised in interest expenses.

Equity/mandatory convertible bond

The mandatory convertible bond is a bond that does not give the bondholder any voting rights. The bond is converted into shares of HOCHDORF Holding Ltd at the latest at the end of its term as a mandatory requirement. The mandatory convertible bond is classified for the most part as equity. The issuing costs are recognised in equity via the capital reserves. The obligations for the interest payable are discounted from the issue date. The conditions for the syndicated loan provide a basis of comparison for the interest rate. The discounted interest obligations are shown under short-term and long-term financial liabilities in accordance with their maturities. The interest payable is offset against the corresponding financial liabilities. Only the accrued interest of the relevant business year is recognised in interest expenses.

Short-term/long-term liabilities

Liabilities are measured at the nominal amount. Short-term liabilities 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 of foreign companies 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 accounts receivable 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 takeover of Zifru Trockenprodukte GmbH as at 31 October 2017 and the formation of Snapz Foods AG with the acquisition of intangible rights will only lead to a negligible increase in the individual balance sheet items. The values are therefore directly comparable with the previous year overall.

1. Cash and cash equivalents

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

TCHF	2017	2016
Cash	19	8
Post account	9,129	9,370
Bank account	54,282	58,111
Short-term investments	430	219
Total	63,860	67,708

2. Accounts receivable

TCHF	2017	2016
Accounts receivables from third parties	81,862	58,869
Minus provision for doubtful accounts	-378	-1
Short-term receivables from related parties	44,100	8,421
Accounts receivables from associated companies	1,556	2,393
Other receivables	10,681	5,625
Other receivables from related parties	0	41
Total	137,821	75,348

Diversification means there is no concentration of credit risk with regard to accounts 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	2017	2016
Raw materials, packaging materials, operating materials	12,375	10,204
Finished and semi-finished products, trade goods	44,343	41,137
Heating oil	434	491
Value adjustments for inventories	-1,707	-2,050
Total	55,445	49,782

4. Accrued income

TCHF	2017	2016
As at 31 December	21,555	15,175

The accrued income is 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 01.01.2016	72,411	27,135	54,934	5,961	1,158	8,115	169,714
Purchase value							
As at 01.01.2016	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 01.01.2016	76,946	29,563	86,511	11,968	1,268	0	206,256
Change in scope of consolidation 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
Purchase value							
As at 01.01.2017	151,474	59,574	144,679	20,060	2,606	38,084	416,477
Change in scope of consolidation ⁵⁾	3,543	148	3,766	7	1	0	7,465
Additions	0	10	0	0	44	83,914	83,968
Disposals	-205	-166	-444	-97	-145	0	-1,057
Reclassification ³⁾	14,695	12,719	8,261	3,117	126	-38,918	0
Currency translation differences	4,045	1,100	2,646	112	100	205	8,208
As at 31.12.2017	173,552	73,385	158,908	23,199	2,732	83,285	515,061
Accumulated depreciation							
As at 01.01.2017	79,035	31,801	87,914	13,146	1,604	0	213,500
Change in scope of consolidation ⁵⁾	31	57	1,126	7	1	0	1,222
Disposals	-178	-132	-422	-87	-83	0	-902
Depreciation	2,376	2,575	4,614	1,680	271	0	11,516
Currency translation differences	1,820	742	2,068	36	65	0	4,731
As at 31.12.2017	83,084	35,043	95,300	14,782	1,858	0	230,067
Net accounting value as at 31.12.2017	90,468	38,342	63,608	8,417	874	83,285	284,994

¹⁾ The Group holds undeveloped 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.

⁵⁾ In the context of the purchase of Zifru Trockenprodukte GmbH.

Of which assets subject to financial leasing

TCHF	Total	Open instalments
Net accounting value as at 01.01.2017	8,978	7,012
Purchase value		
As at 01.01.2017	9,890	7,012
Additions	0	0
Disposals of instalments	0	-1,943
Currency translation differences	66	25
As at 31.12.2017	9,956	5,094
Accumulated depreciation		
As at 01.01.2017	912	0
Depreciation	565	0
Currency translation differences	25	0
As at 31.12.2017	1,502	0
Net accounting value as at 31.12.2017	8,454	5,094

6. Associated companies

Associated companies	Location	Function	Currency	Capital in thousand 31.12.2017	Shareholding 31.12.2017 TCHF	Capital share 31.12.2016 TCHF
Ostmilch Handels GmbH	Bad Homburg DE	Trade	EUR	1,000	2,560	2,670
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel DE	Logistics	EUR	51	0	141
Ostmilch Frischdienst Magdeburg GmbH	Meitzendorf DE	Trade	EUR	25	79	87
					2,639	2,898

7. Financial assets

TCHF	2017	2016
Securities	30	30
Deferred tax assets	2,085	1,273
Assets from employer contribution reserves	8,077	7,899
Total	10,192	9,202

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

Taxable losses carried forward after expiration

TCHF	2017	2016
2023 and later	7,999	4,490
Total	7,999	4,490

Pension plans

TCHF Employer contribution reserve	Nominal value 31.12.2017	Renounced use 31.12.2017	Balance sheet 31.12.2017	Provision per 2017	balance sheet 31.12.2016	Result of the committee of works and staff councils in personnel expenses	
						2017	2016
HGR pension fund	8,077	0	8,077	178	7,899	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 2017 (previous year 2.25%).

TCHF Economic benefit/economic liability and pension expenditure	Credit/debit balance 31.12.2017	Economic share of the organisation		Change compared to prior year	Amounts accrued for the period	Pension expenditure in personnel expenses	
		31.12.2017	31.12.2016			2017	2016
HGR pension fund	16,856	0	0	305	2,142	2,142	1,837

8. Intangible assets ¹⁾

TCHF	Software	Brands	Other intangible assets	Total
Net accounting value as at 01.01.2016	1,951		0	1,951

Purchase value

As at 01.01.2016	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 01.01.2016	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

Purchase value

As at 01.01.2017	2,879		700	3,579
Additions	704	3,520		4,224
Disposals	-87			-87
Currency translation differences	59			59
As at 31.12.2017	3,555	3,520	700	7,775

Accumulated depreciation

As at 01.01.2017	1,179		16	1,195
Disposals	0			0
Depreciation	514	117	140	771
Currency translation differences	45			45
As at 31.12.2017	1,738	117	156	2,011

Net accounting value as at 31.12.2017	1,817	3,403	544	5,764
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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	2017	2016
To third parties	72,506	57,729
To related parties	2,170	446
To associated companies	155	380
Total	74,831	58,555

10. Short-term financial liabilities

TCHF	2017	2016
Other financial liabilities ¹⁾	9,571	91
To related parties ²⁾	96,829	54,300
Leasing liabilities	1,981	1,945
Bank loans ³⁾	98	7,097
Total	108,479	63,433

¹⁾ Including discounted interest amounts from the convertible bond and the hybrid bond for 2018; see additional explanations in figure 15.

²⁾ Including purchase price debt of CHF 96.4 million in connection with the acquisition of the Pharmalys companies.

³⁾ Uckermärker Milch GmbH has its own credit line for EUR 10 million. Until the end of 2016, the outstanding amount was listed under short-term financial liabilities. The credit agreement is identical to the credit agreement for the syndicated loan of the holding company and is of a long-term nature. The amounts outstanding are therefore listed under long-term financial liabilities from 2017.

11. Other short-term liabilities

TCHF	2017	2016
Other short-term liabilities	6,229	4,565
Employee overtime	311	193
Employee holiday credits	658	536
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc..)	4,035	4,288
Government bodies (taxes, source taxes, VAT)	5,804	3,202
Total	17,037	12,784

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 carried over to the new year.

12. Accrued liabilities and deferred income

TCHF	2017	2016
As at 31 December	15,496	4,652

The accrued liabilities and deferred income essentially includes accruals in the context of reimbursements and commissions to customers («Schoggi Law») and other supplier services (power, water, transport).

13. Long-term financial liabilities

TCHF	2017	2016
Mortgages, loans ¹⁾	452	429
Leasing liabilities	3,117	5,098
Bank loans ²⁾	11,817	115,205
To related parties	0	105,500
Other financial liabilities ³⁾	24,336	0
Total	39,722	226,232

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

²⁾ Uckermärker Milch GmbH has its own credit line for EUR 10 million. Until the end of 2016 the outstanding amount was listed under short-term financial liabilities. The credit agreement is identical to the credit agreement for the syndicated loan of the holding company and is of a long-term nature. The amounts outstanding are therefore listed under long-term financial liabilities from 2017.

³⁾ Including discounted interest amounts from the convertible bond and the hybrid bond for 2019 and subsequent years; see additional explanations in point 15.

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

Position	Book value TCHF	Due date	Interest rate
Syndicated loan	0	30.06.2021	from 0.70% to 2.60%
Bank loans	11,915	>2020	from 1.50% to 7.11%
Geiger loan	452	>2020	from 1.26% to 2.68%
Short-term leasing	1,981	2018	from 1.85% to 5.34%
Long-term leasing	3,117	2019/2020	from 1.85% to 5.34%
Other short-term financial liabilities	9,571	2018	from 0.00% to 7.97%
To related parties short-term	96,829	2018	No interest
Other long-term liabilities	24,336	2019/2023	No interest
Total	148,201		

The financial liabilities are recorded and valued at the nominal value.

14. Provisions

TCHF	Damages claims	Various provisions	Deferred tax provisions	Total
Development of provisions				
As at 31.12.2015	105	0	11,095	11,200
Provisions made (with effect on net income)	80	0	3,044	3,124
Provisions used	0	0	0	0
Provisions released	-104	0	-134	-238
Currency translation differences	-1	0	-71	-72
As at 31.12.2016	80	0	13,934	14,014
Provisions made (with effect on net income)	0	5	3,223	3,228
Provisions used	-51	0	0	-51
Provisions released	-29	0	-182	-211
Currency translation differences	0	0	442	442
As at 31.12.2017	0	5	17,417	17,422

15. Share capital – mandatory convertible bond – hybrid capital – contingent capital

The share capital of HOCHDORF Holding Ltd was unchanged at CHF 14,347,600 as at 31.12.2017. It is divided into 1,434,760 registered shares at a nominal value of CHF 10 each (2016: 1,434,760 registered shares).

In the business year 2017, HOCHDORF Holding Ltd issued a public mandatory convertible bond with a nominal volume of CHF 218.49 million, net CHF 217.06 million; duration from 30.03.2017 – 30.03.2020; 3.5% interest rate for the whole duration; conversion price CHF 304.67; securities number 35,275,641; ISIN CH0352756412; conversion period: 03.01.2018 up to and including 13.03.2020. The transaction costs for the mandatory convertible bond of CHF 1.43 million are represented in the capital reserves.

The mandatory convertible bond is composed of a public offering of mandatory convertible bonds in the sum of CHF 87,485,000 to existing shareholders in Switzerland and certain existing shareholders outside Switzerland and the USA (Tranche A) and a private placement of mandatory convertible bonds amounting to CHF 131,005,000, which were subscribed to in full by Mr Amir Mechria (Tranche B).

The mandatory convertible bond is classified for the most part as equity. It is split into an equity component and a liabilities component. The liabilities component includes all future bond interest payments. These were discounted on the issue date of 30.03.2017 at an interest rate of 1%. This interest rate corresponds to the current margin of the syndicated loan. Of the whole bond amount of CHF 218.49 million, CHF 133.285 million are effectively interest-bearing from 30.03.2017 until 30.03.2018. From 01.04.2018, interest will be charged on the full bond amount. The effective interest payments will be drawn from the corresponding financial liabilities and will not be charged to income. Only the accrued interest of the relevant business year is recognised in interest expenses.

The division of the mandatory convertible bond into an equity component and a liabilities component had, mistakenly, not yet been carried out in the half-yearly statement as at 30.06.2017. The previous year will be adjusted accordingly in the half-year report as at 30.06.2018.

HOCHDORF Holding Ltd has contingent capital of CHF 7,173,800 for the creation of 717,380 registered shares to service the mandatory convertible bond.

Likewise in 2017 (payment 21.12), HOCHDORF Holding Ltd issued a public mandatory convertible bond with a nominal volume of CHF 125 million, net CHF 124.17 million. It is a perpetual subordinated bond which pays interest with a coupon rate of 2.5%. The hybrid bond has its first call date after five-and-a-half years (21.06.2023). If this is not exercised, the amount of interest payable increases (step-up). Securities number 39,164,798; ISIN CH0391647986.

The hybrid bond is classified for the most part as equity due to its properties. It is split into an equity component and a liabilities component. The liabilities component includes all future bond interest payments until the first call date. These were discounted on the issue date of 21.12.2017 at an interest rate of 1%. This interest rate corresponds to the current margin of the syndicated loan. The effective interest payments will be drawn from the corresponding financial liabilities and will not be charged to income. Only the accrued interest of the relevant business year is recognised in interest expenses.

A liabilities component is used on the grounds that the interest payments, which can, in principle, be delayed, have to be paid up to and including 30.03.2020, according to the issue prospectus. This is because the interest payments for the hybrid bond cannot be suspended as long as interest is paid for the mandatory convertible bond (compulsory events), which will be the case until the bond matures on 30.03.2020. In addition, it can be assumed on the basis of the dividend policy of HOCHDORF Holding Ltd that no interest payments will be delayed until the first call date as a result of dividend payments.

Notes to the consolidated income statement

The following explanatory remarks are given to supplement the income statement, structured in accordance with the overall cost procedure (production income statement). The income statement items included the values of the Pharmalys companies for the first time in 2017. Also included in 2017 are the values for the months November and December of the newly founded Snapz Foods Ltd and the acquired Zifru Trockenprodukte GmbH. Therefore, a direct comparison with the prior year is only of limited value.

16. Net revenue from deliveries and services

By product groups

TCHF	2017		2016	
Milk products/cream	234,459	39.04%	232,828	42.99%
Milk powder	165,057	27.48%	157,787	29.13%
Infant formula	166,094	27.66%	121,762	22.48%
Specialties/wheat germ	17,227	2.87%	13,933	2.57%
Bakery/confectionary goods	4,664	0.78%	5,027	0.93%
Other products/services	13,026	2.17%	10,269	1.90%
Total	600,527	100.00%	541,606	100.00%

By region

TCHF	2017		2016	
Switzerland/Liechtenstein	200,319	33.36%	191,210	35.31%
Europe	237,106	39.48%	234,061	43.22%
Asia	22,640	3.78%	25,247	4.66%
Middle East/Africa	132,190	22.01%	82,663	15.26%
USA/Canada	239	0.04%	321	0.06%
Americas (others)	4,111	0.68%	5,435	1.00%
Other ¹⁾	3,922	0.65%	2,669	0.49%
Total	600,527	100.00%	541,606	100.00%

¹⁾ The remaining turnover comprises deliveries to customers who export the goods and where the destination country is not separately recorded.

By Division

TCHF	2017		2016	
Dairy Ingredients	405,131	67.46%	393,099	72.58%
Baby Care	168,751	28.10%	123,029	22.72%
Cereals & Ingredients	26,645	4.44%	25,478	4.70%
Total	600,527	100.00%	541,606	100.00%

As a result of possible competitive disadvantages compared to non-listed and large listed competitors, customers and suppliers, presentation of the segment results was waived, pursuant to Swiss GAAP ARR 31/8. The Swiss milk market is small and tightly knit with few key companies and providers. The providers (milk producers) are limited to the individual milk producer organisations. On the processing side, the market is shaped by four large dairies, along with cheesemakers. On the customer side, the chocolate industry segment is predominant, likewise with just a few large processors. In the area of infant formula (based on milk), only one other firm produces infant formula for the Swiss and international market, apart from the HOCHDORF Group.

17. Other operating income

TCHF	2017	2016
Various other operating income	419	551
Total	419	551

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.

18. Personnel expenses

TCHF	2017	2016
Wages	-41,201	-38,891
Social contributions	-6,643	-6,141
Incidental wage costs incl. temporary staff	-3,156	-2,764
Total	-51,000	-47,796

19. Other operating expenses

TCHF	2017	2016
Facilities expenditure (incl. warehouse rents)	-4,934	-4,879
Maintenance, repairs	-8,503	-8,381
Vehicle and transport costs	-10,035	-7,625
Insurance, fees, duties	-1,404	-1,232
Energy and disposal expenditure	-15,273	-16,904
Administration and IT expenditure	-4,728	-4,029
Advertising costs incl. commissions to customers	-14,409	-6,804
Various other operating costs	-5,646	-5,767
Total	-65,382	-55,621

20. Financial result

TCHF	2017	2016
Interests from cash and cash equivalents	1	0
Revenues from holdings and financial assets incl. associated parties	613	1,660
Other financial revenue	19	25
Exchange rate gains	3,988	0
Total financial revenue	4,621	1,685
Interest costs	-1,319	-1,170
Deposit fees, fees	-18	-144
Exchange rate losses	-0	-419
Total financial costs	-1,337	-1,733
Total	3,284	-48

21. Non-operating income

TCHF	2017	2016
Revenue from external properties	-34	-31
Total	-34	-31

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	2017	2016
Profit from the disposal of operational assets	-48	-4
Extraordinary result	38	-5
Total	-10	-9

23. Taxes

TCHF	2017	2016
Current income taxes		
Taxes on operating result	-3,793	-667
Deferred income taxes		
Net change in deferred tax assets and liabilities	-1,217	-2,304
Total	-5,010	-2,971

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 10.73% (previous year: 13.28%). The reduction compared to the previous year is due primarily to the late submission of carried forward losses at the foreign subsidiaries from prior years in a volume equivalent to CHF 2,285,414 and the formation of deferred tax assets on new losses from the business year in a volume equivalent to CHF 2,756,390. By applying the tax rates which are applicable for the companies, this results in a lower tax expenditure with a volume equivalent to CHF 1,102,678. Without these changes, the weighted, average tax rate for the business year would be 12.80%.

Capital taxes are reported separately in operating costs. 2016 and years before have been definitively assessed for the Swiss companies. The companies abroad have been provisionally assessed.

24. Earnings per share

Earnings per share, basic

	2017	2016
Weighted average shares outstanding	1,404,639	1,411,425
Net profit after minority interests	25,894,285	19,931,059
Earnings per share in CHF, basic	18.43	14.12

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

Earnings per share, diluted

	2017	2016
Weighted average shares outstanding, basic	1,404,639	1,411,425
Dilution effect of convertible bond ¹⁾	717,136	0
Weighted average shares outstanding, diluted	2,121,775	1,411,425
Net profit after minority interests	25,894,285	19,931,059
Interest paid on convertible bond ²⁾	26,045	0
12% tax effect (interest on convertible bond*0.12/1.12)	-2,791	0
Net profit after minority interest, diluted	25,917,539	19,931,059
Earnings per share in CHF, diluted	12.22	14.12

¹⁾ The dilution is calculated from the conversion loan of CHF 218.49 million and the conversion price CHF 304.67, from which a maximum of 717,136 new shares are generated. The conversion period runs from 03.01.2018 to 13.03.2020. Therefore, as of 31.12.2017 the whole of the mandatory convertible bond was outstanding.

²⁾ In this case only the accrued interest on the liabilities component for the current business year is taken into account in interest costs. The actual interest payments are offset against the liabilities component of the discounted interest payments, as described in figure 15.

25. Own shares

HOCHDORF Group pension fund

	2017 Number	2016 Number
Registered shares of HOCHDORF Holding Ltd	18,000	18,000
Total	18,000	18,000

Transactions with own shares

	2017	2016
Balance as of 01.01 in units	24,372	24,000
At the average price per share of CHF	211.14	158.94
Purchases in units	13,004	21,353
At the average price per share of CHF	279.91	216.60
Sales/allocation in units	-1,243	-20,981
At the average price per share of CHF	303.22	188.14
Balance as of 31.12 in units	36,133	24,372
At the average price per share of CHF	237.20	211.14

Share-based remuneration

As described in the remuneration report, 20% of the Board of Directors' remuneration, excluding expenses, is paid out in the form of HOCHDORF Holding Ltd shares. In the case of Group Management, 20% of the variable remuneration is also paid out in the form of HOCHDORF Holding Ltd shares. They are allocated at the volume-weighted average price of all transactions on the SIX on the allocation day.

Allocation	Allocation date	Allocated securities	Volume-weighted average exchange rate (CHF)	Recognised expenses (CHF)
Variable remuneration paid to Group Management	10.03.2017	873	314.37	274,448.04
Fee for Board of Directors	13.12.2017	370	276.89	102,449.30

Further notes

Unsettled derivative financial instruments

Exchange rate instruments	Value changes	2017 Asset values	2017 Liability values	Purpose	Value change	2016 Asset values	2016 Liability values	Purpose
Interest rate swaps	0	0	0	Hedging	0	0	0	Hedging
Forward exchange contracts	-229	0	229	Hedging	120	0	0	Hedging
Total assets and liability values	-229	0	229		120	0	0	

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. As of the balance sheet date, forward exchange contracts existed totalling EUR 36 million at an average exchange rate of EUR 1 = CHF 1.163791.

Leasing debts

TCHF	2017	2016
Unrecognised leasing debts	74	7
Total	74	7

The unrecognised leasing debts are for the full operational leasing of a car, which includes variable costs, such as maintenance, servicing and fuel.

Liabilities from pension fund

TCHF	2017	2016
HOCHDORF Group pension fund	360	308
Total	360	308

The liabilities from the pension fund relate to the premiums invoice for the month of December, which had not yet been paid as at the balance sheet date.

Acquisitions

On 31 October 2017, in connection with the strategic development of the Cereals & Ingredients division, HOCHDORF Holding Ltd acquired 100% of the shares in Zifru Trockenprodukte GmbH, with its registered office in Zittau (Germany), and thus acquired control. The company specialises in the production of dried fruit and vegetable products.

The acquired net assets are as follows:

TEUR	Total
Cash and cash equivalents	31
Accounts receivables	42
Other short-term receivables	75
Inventories	615
Accrued income	3
Property and plant	3,023
Other fixed assets	2,351
Trade payables	-14
Other short-term liabilities	-113
Long-term liabilities	-3,477
Provisions	-1,273
Identified net assets	1,263

The purchase price corresponds to the net assets. There was no goodwill.

Purchase price calculation for Pharmalys

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 its registered office in Baar (now Hochdorf), and 49% of the shares in Pharmalys Tunisie S.à.r.l., with its registered office in Kondar, Tunisia. As at 14 March 2017, HOCHDORF Holding Ltd additionally acquired 2% of the shares in Pharmalys Tunisie S.à.r.l., with the result that it now holds 51% of the shares.

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 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 30 March 2018. The EBIT of the two companies will be available when the annual report is created. The parties decided by mutual consent, contrary to the arrangements in the share purchase agreement, to create an additional side letter, listing items that have an impact on the calculation of the purchase price, but can only be definitively determined in 2018. The expected maximum purchase price will be taken into account based on the results of the two companies as at 31 December 2017. The purchase price is CHF 248.213 million on the basis of the audited financial statements and includes external advisory costs in connection with the transaction. A provisional purchase price of CHF 172.082 million was shown in the financial statements as at 31 December 2016. Taking into consideration the payment made in 2017 for the acquisition of 2% of the shares in Pharmalys Tunisie S.à.r.l. for CHF 0.049 million, CHF 76.082 million therefore still has to be included as the value of the holdings as at 31 December 2017. This amount represents in total goodwill and is offset against equity.

An amount of CHF 20 million of the total purchase price to be paid was transferred in cash by 31 December 2016. As at 14 March 2017 an amount of CHF 0.049 million was paid for the purchase of 2% of the shares in Pharmalys Tunisie S.à.r.l. On 30 March 2017, another advance payment of CHF 45.8 million was made in the form of Mandatory Convertible Securities (MCS) from Tranche B of the paid-in convertible bonds in March 2017. On the basis of the purchase agreement and the side letter, a further payment was made on 30 March 2018 in the form of MCS and in cash. The final payment is scheduled for the end of 2018.

Goodwill offset against equity

Purchase costs

TCHF	2017	2016
As at 1 January	169,096	3,088
Additions	76,082	166,008
As at 31 December	245,178	169,096

Accumulated depreciation

TCHF	2017	2016
As at 1 January	-1,617	-999
Additions	-33,819	-618
As at 31 December	-35,436	-1,617
Theoretical price as at 31 December	209,742	167,479

A goodwill of TCHF 76,082 resulted from the determined purchase price for Pharmalys. 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	2017	2016
Net profit	40,846	19,406
Depreciation of goodwill	-33,819	-618
Theoretical net profit	7,027	18,788
TCHF	2017	2016
Equity	309,282	45,805
Theoretical goodwill	209,742	167,479
Theoretical equity	519,024	213,284

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 of 2017 and 2016. These cover deliveries of goods and raw materials as well as services to and from related companies.

Transactions with associated companies

TCHF	2017	2016
Net sales	79,070	69,395
Cost of goods	-10,755	-6,647
Services revenue	24	0
Service costs	-383	-498
Operating expenses	-72	-182
Financial revenue	13	9
Financial expenditure	-10	-11

Transactions with related companies

TCHF	2017	2016
Net sales	57,154	5,603
Cost of goods	0	-627
Services revenue	119	66
Service costs ¹⁾	-2,136	-1,837
Operating expenses	-1,772	0
Financial revenue	2,833	17
Financial expenditure	-971	-3

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

In the course of the acquisition of Zifru Trockenprodukte GmbH in Zittau HOCHDORF Holding Ltd negotiated with the previous shareholders. The previous shareholders included Kyberion AG, with a stake of 43%, and Prof Dr Holger Karl-Herbert Till, with a stake of 5%. Kyberion AG is controlled fully by the CEO of HOCHDORF Holding Ltd, Dr Thomas Eisenring. Prof Till is a Board member of HOCHDORF Holding Ltd. Neither Prof Till nor Dr Eisenring were present at any of the negotiations or meetings of the Board of Directors of HOCHDORF Holding Ltd relating to the purchase of Zifru Trockenprodukte GmbH.

Contingent liabilities

There are no contingent liabilities.

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 2017 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 23 March 2018.

To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 23 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 64 to 89) to the consolidated financial statements, for the year ended 31 December 2017.



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 2017 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, we performed sample tests on deliveries of goods, which occurred shortly before balance sheet date, with regard to the correctness of revenue allocation on the basis of contracts, calculations and delivery terms.

Acquisitions

Audit matter 100% of the shares in Zifru Trockenprodukte GmbH, Zittau, and the "Snapz" brand were acquired in the last quarter of 2017. Zifru Trockenprodukte GmbH and Snapz Foods AG will therefore be consolidated for the first time in 2017. The final purchase price for Pharmalys, which was taken over in the prior year, was determined at the same time.

The acquisitions have an impact on the consolidated balance sheet, income statement, statement of changes in equity, cash flow statement and the disclosures in the notes. Furthermore, acquisitions represent extraordinary transactions for HOCHDORF that do not follow a standard process and require manual inputs to recognize the acquired entities in the HOCHDORF Group's consolidated financial statements. There is also a certain level of judgment inherent in the purchase price allocation following an acquisition. This includes determining the market values of the acquired assets and liabilities and, ultimately, the goodwill.

The acquisition and the purchase price adjustment are disclosed under "Further notes" in the HOCHDORF Group's notes to the consolidated financial statements.

**Our audit
response**

Management explained the assumptions and estimates used for the purchase price allocation to us. We assessed the judgment applied to determine assets, liabilities and contingent liabilities at market value. For example, this involved us evaluating the appraisals obtained for the estimation of market values. We also determined the value of goodwill as well as the accuracy and completeness of the disclosures in the notes. In addition, we assessed how the expected purchase price was calculated for Pharmalys, which was taken over in the prior year, taking into account the variable purchase price components, by verifying the parameters used in the calculation and critically evaluating their appropriateness.



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.

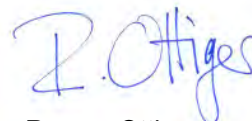
In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd



Bernadette Koch
Licensed audit expert
(Auditor in charge)



Roman Ottiger
Licensed audit expert

HOCHDORF Holding Ltd

Balance sheet as at 31 December

	2017 CHF	In %	2016 CHF	In %
Assets				
Cash and cash equivalents and short-term assets with market price	23,531,438	4.0%	44,338,294	10.3%
Accounts receivables				
– to third parties	1,077	0.0%	1,077	0.0%
– to Shareholdings	547,951	0.1%	520,949	0.1%
Other short-term receivables				
– to third parties	36,079	0.0%	71,145	0.0%
Current assets	24,116,545	4.0%	44,931,466	10.5%
Loans to shareholdings	240,437,765	40.4%	130,312,578	30.4%
Shareholdings	331,125,232	55.6%	253,461,394	59.1%
Fixed assets	571,562,997	96.0%	383,773,971	89.5%
Total assets	595,679,543	100.0%	428,705,437	100.0%
Liabilities				
Short-term liabilities				
Trade payables				
– to third parties	58,098	0.0%	255,281	0.1%
Other short-term liabilities				
– to third parties	152,443	0.0%	278,513	0.1%
– to related parties (non-interest bearing)	96,388,412	16.2%	45,800,000	10.7%
Accrued liabilities and deferred income				
– from third parties	1,302,290	0.2%	0	0.0%
Long-term liabilities				
Long-term interest-bearing payables				
– to third parties	343,490,000	57.7%	115,000,000	26.8%
– to shareholdings	94,497	0.0%	924,562	0.2%
– to related parties (non-interest bearing)	0	0.0%	105,500,000	24.6%
Total liabilities	441,485,740	74.1%	267,758,356	62.5%
Share capital	14,347,600	2.4%	14,347,600	3.3%
Statutory capital reserves (capital investments)	65,981,710	11.1%	72,863,792	17.0%
General statutory profit reserves	10,172,000	1.7%	10,172,000	2.4%
Voluntary profit reserves	20,347,588	3.4%	20,347,588	4.7%
Balance sheet profit				
– profit carried forward	48,347,733	8.1%	42,135,022	9.8%
– earnings current year	3,387,968	0.6%	6,097,514	1.4%
Own shares	–8,390,795	–1.4%	–5,016,434	–1.2%
Shareholders' equity	154,193,803	25.9%	160,947,081	37.5%
Total liabilities and equity	595,679,543	100.0%	428,705,437	100.0%

HOCHDORF Holding Ltd

Income statement

	2017 CHF	2016 CHF
	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016
Income from equity investments	3,937,581	4,625,004
Other financial revenue	5,710,966	4,055,927
Other operating income	680	0
Total income	9,649,227	8,680,931
Financial expenses	-5,769,179	-2,103,804
Other operating expenses	-501,245	-315,606
Direct taxes	-9,165	-164,007
Total expenses	-6,261,260	-2,583,417
Net profit for the year	3,387,968	6,097,514

Notes to the financial statements 2017

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		Capital and voting share	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
Schweiz. 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	n/a	1,200	n/a	100% ¹⁾
HOCHDORF Swiss Whey Ltd, Hochdorf	Inactive	CHF	n/a	100	n.a.	100% ²⁾
HOCHDORF Baltic Milk UAB, LT-Medeikiai	Production	EUR	5,792	5,792	100%	100%
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 Americas Ltd, UY-Montevideo	Trade	UYU	3,283	3,283	60%	60%
HOCHDORF South Africa Ltd, SA Cape Town	Production	ZAR	500	500	90%	90%
Pharmalys Africa S.à.r.l., TN-Tunis	Administration	TND	120	120	51%	51%
Pharmalys Laboratories SA, Hochdorf	Trade	CHF	100	100	51%	51%
Pharmalys Tunisie S.à.r.l., TN-Sousse	Production	TND	3,300	3,300	51%	49% ³⁾
Snapz Foods Ltd, Hochdorf	Trade	CHF	100	n/a	65%	n/a ⁴⁾
Zifru Trockenprodukte GmbH, DE-Zittau	Production	EUR	200	n/a	100%	n/a ⁵⁾

¹⁾ Merged with HOCHDORF Swiss Nutrition Ltd as at 01.01.2017

²⁾ Merged with HOCHDORF Swiss Nutrition Ltd as at 01.01.2017

³⁾ Acquisition of an additional 2% shareholding as at 31.03.2017

⁴⁾ Formation on 19.10.2017.

⁵⁾ Purchase of 100% as at 31.10.2017

3.2. Short-term liabilities

TCHF	31.12.2017	31.12.2016
Third-party performances	58	255
Other (government bodies)	153	279
Outstanding purchase price debt for acquisition of company (non-interest bearing)	96,388	45,800
Total	96,599	46,334

3.3. Long-term interest-bearing payables

TCHF	31.12.2017	31.12.2016
Syndicated loan	0	115,000
Long-term financial liabilities (bonds)	343,490	0
Outstanding purchase price debt for acquisition of company (non-interest bearing)	0	105,500
Loans of shareholdings	95	925
Total	343,585	221,425

Maturity structure

TCHF	31.12.2017	31.12.2016
Up to 5 years	218,585	221,425
Over 5 years	125,000	0
Total	343,585	221,425

3.4. Other operating expenses

TCHF	31.12.2017	31.12.2016
Administration and IT expenditure	-392	-185
Marketing and sales expenditure	-1	-79
Other operating expenses	-15	-18
Bank charges, agency fees	-92	-34
Total	-500	-316

4. Shareholders

>3%	31.12.2017	31.12.2016
ZMP Invest AG, Lucerne	14.51%	12.37%
Weiss family and Innovent Holding AG, Wollerau	5.35%	5.35%
Stichting General Holdings, Amsterdam	4.08%	4.08%
Taaleri plc, Helsinki	3.14%	
Maurer Group, Hunzenschwil	3.01%	

5. Release of hidden reserves

CHF	31.12.2017	31.12.2016
No hidden reserves	0	0

6. Transactions with own shares

Business year 2017			Business year 2016		
01.01.2017 balance	24,372 shares	at price 205.83	01.01.2016 balance	24,000 shares	at price 157.51
FY 2017 purchases	13,004 shares	at av. price 279.91	FY 2016 purchases	21,353 shares	at av. price 216.60
FY 2017 sales/allocation	1,243 shares	at av. price 303.22	FY 2016 sales	20,981 shares	at av. price 188.14
31.12.2017 balance	36,133 shares	at price 232.22	31.12.2016 balance	24,372 shares	at price 205.83

7. Contingent capital

As at 31.12.2017, HOCHDORF Holding Ltd had contingent capital in the nominal amount of CHF 7,173,800, corresponding to 717,380 registered shares at a nominal value of 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 31.12.2017	Number of shares 31.12.2016
Dr Daniel Suter, Chairman, Audit Committee	296	160
Dr Anton von Weissenfluh, Vice Chairman, Personnel and Remuneration Committee	1,355	1,300
Dr Walter Locher, Audit Committee, Personnel and Remuneration Committee	1,553	1,400
Michiel de Ruiter, Market and Strategy Committee	46	0
Ulrike Sailer, Market and Strategy Committee, from 05.05.2017	104	n/a
Niklaus Sauter, Audit Committee, Personnel and Remuneration Committee	456	400
Prof Dr Holger Karl-Herbert Till, Market and Strategy Committee	210	150
Josef Leu, Chairman, Personnel and Remuneration Committee, until 05.05.2017	n/a	1,550
Meike Bütikofer, Market and Strategy Committee, until 05.05.2017	n/a	531
Board of Directors Total	4,020	5,491

Group Management

Dr Thomas Eisenring CEO	1,243	825
Marcel Gavillet, CFO	1,301	1,230
Christoph Peterzell, COO	71	400
Werner Schweizer, Managing Director Dairy Ingredients	138	165
Michel Burla, Managing Director Cereals & Ingredients	36	300
Frank Hoogland, Managing Director Baby Care	71	0
Folkert Togtema, Chief Sales Officer	192	32
Dr Karl Gschwend, Managing Director Strategic Projects	71	114
Group Management Total	3,123	3,066
Total of Board of Directors and Group Management	7,143	8,557
In %	0.5%	0.6%

According to the compensation regulations, 20% of the fees of the Board of Directors and 20% of the variable profit-sharing of Group Management is paid in the form of shares. Shares are allocated at the average price on the allocation date. Other trading is carried out 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 available earnings

	31.12.2017 CHF	31.12.2016 CHF
Profit carried forward	48,232,536	42,042,522
Change correction on balance of own shares from the previous year ¹⁾	115,197	92,500
Change in effective balance of shares from convertible bond	0	0
Profit current year	3,387,968	6,097,514
Total available to Annual General Meeting	51,735,700	48,232,536

Motion concerning the proposed appropriation of available earnings

Balance carried forward	51,735,700	48,232,536
Total appropriation of profit	51,735,700	48,232,536

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

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

Reserves from capital investments	67,411,704	72,968,058
Capital investments from conversion of convertible bond ³⁾	-1,429,995	-104,266
Conversion of reserves from capital investments to free reserves ²⁾	-5,739,040	-5,452,088
Remaining reserves from capital investments	60,242,669	67,411,704

²⁾ CHF 4.00 (PY CHF 3.80) in dividends per nominal CHF 10 of share capital from the capital investment reserves. The effective dividend payment amount is calculated on the effective balance of shares outstanding at the time of the dividend payment.

³⁾ Incurred costs in connection with the mandatory convertible bond that was issued in March 2017.

To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 23 March 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of HOCHDORF Holding Ltd., which comprise the balance sheet, income statement and notes (pages 93 to 99), for the year ended 31 December 2017.



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 2017 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 accompanying 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.

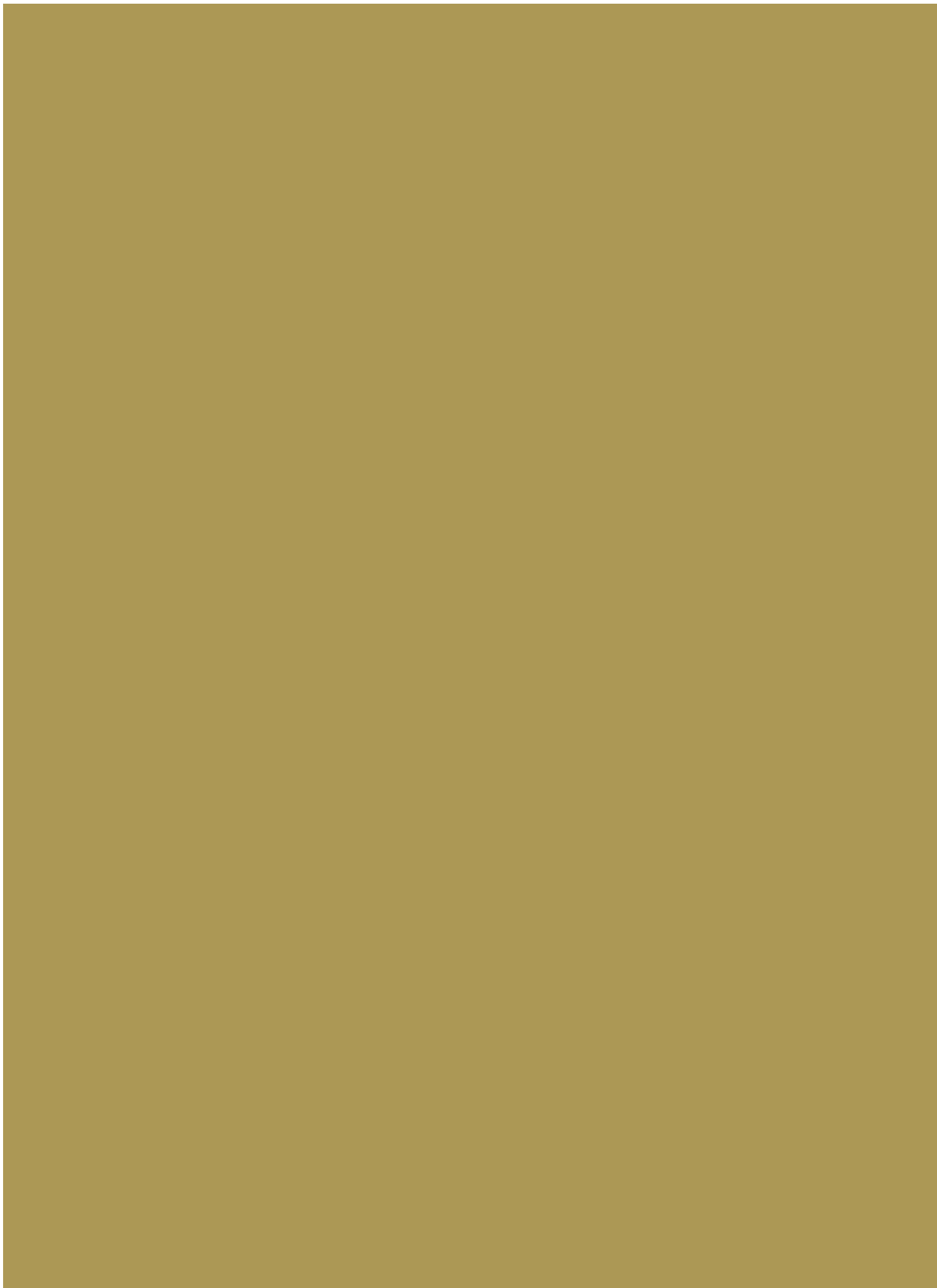
Ernst & Young Ltd



Bernadette Koch
Licensed audit expert
(Auditor in charge)



Roman Ottiger
Licensed audit expert



Sustainability key figures

Every two years, the HOCHDORF Group publishes a sustainability report along with its annual report, covering the issues of employees, energy and society. The last detailed sustainability report appeared in the 2016 Annual Report. The relevant key figures are published and commented on below.

Our employees

As at the end of 2017, the HOCHDORF Group had a total of 695 employees, up 62 year-on-year. Forty-three of the new posts can be attributed to acquisitions. New jobs have been created primarily in Sulgen in connection with extending capacity for infant formula. Since 2014, the number of employees in Sulgen has increased by over 40.

The HOCHDORF Group is very committed to providing vocational training for young people. By the end of 2017, HOCHDORF had trained a total of 34 apprentices in six occupations at its locations in Switzerland and in Germany. In comparison: 11 apprentices were trained in four professions in 2014.

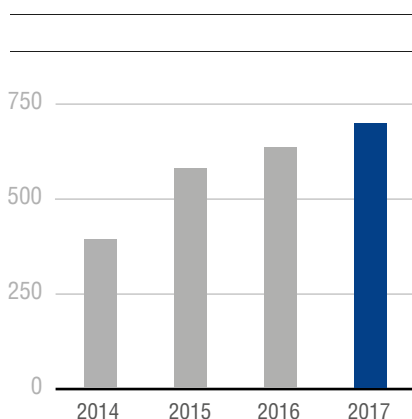
Energy and environment

The energy consumption of the HOCHDORF Group (fossil fuel energy sources and electricity) decreased over two years by 3.5% from 270.2 to 260.7 gigawatt hours. However, compared to the previous year, 20.9% fewer products were manufactured (186,845 tons in 2017 vs. 236,179 tons in 2016). Correspondingly, around 1,395 kWh of energy was used per tonne of product (fossil fuel energy sources and electricity) (PY 1,144 kWh/t; +22.0%). This shows that well utilised facilities produce more efficiently. However, a certain proportion of the consumption can be attributed to construction activity in Sulgen.

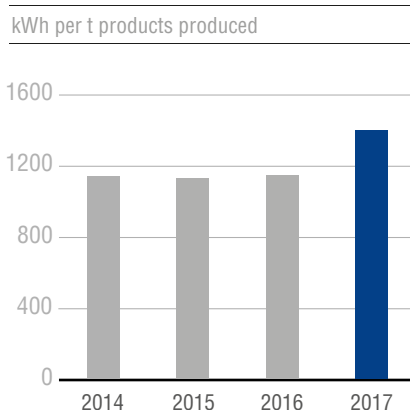
The subject of efficiency also comes up when analysing CO₂ values. These were calculated using conversion factors and based on the original energy source. Consequently, HOCHDORF production plants emitted around 53,800 tonnes of CO₂ in 2017 (PY 57,200 t). Per produced tonne of product, this results in a value of 288.1 kg CO₂ (PY 242.3 kg CO₂/t).

In the past business year we, for example, invested in a new, more efficient high concentrator in Hochdorf. The high rack storage area was also put into operation in Sulgen at the end of 2017. Previously, these materials were stored temporarily at external sites. Thanks to on-site storage, large numbers of lorry trips will no longer be necessary in 2018.

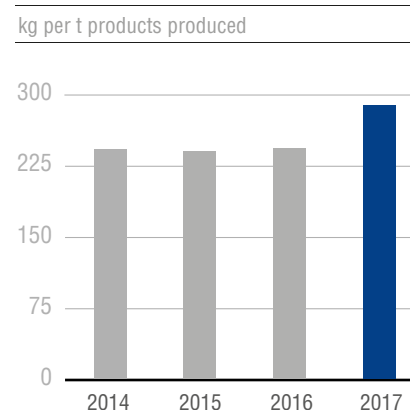
Number of employees



Energy use
(fossil fuels and electricity)



CO₂-output



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