ANNUAL REPORT

2018

HOCHDORF
BEST PARTNER

Page references

Further information

Important data/fact

Annual Report 2018

Facts and figures

2018 was a year of successful strategy implementation, but also of unfulfilled expectations. Bimbosan AG, for example, was acquired and new products launched as important components for the successful implementation of the strategy. Pharmalys, by contrast, was unable to meet its turnover and earnings expectations; the additional production capacities were only available after a delay and our brands in China were not yet registered.

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 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. HOCHDORF's own infant formula brands are marketed by HOCHDORF Swiss Nutrition Ltd, Bimbosan Ltd and the Pharmalys Group (51% stake). HOCHDORF is among the leading food companies in Switzerland and at 31 December 2018 had more than 700 employees worldwide. HOCHDORF products contribute to 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.

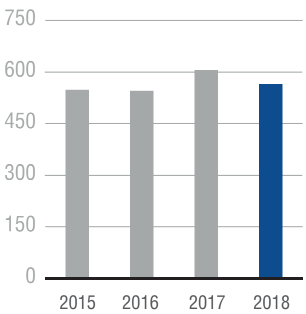
Our strategic objective

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

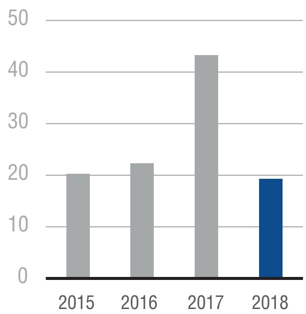
Net sales revenue

CHF Mio.



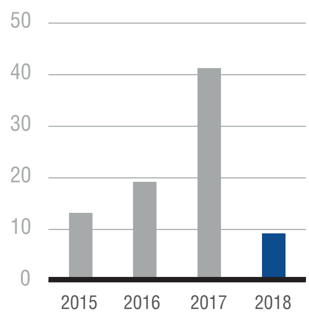
EBIT

CHF Mio.



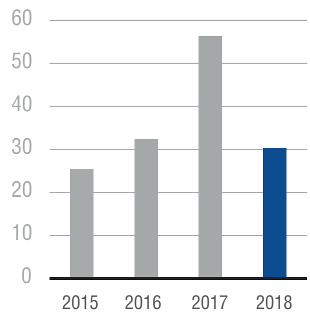
Net profit

CHF Mio.



Earned capital

CHF Mio.



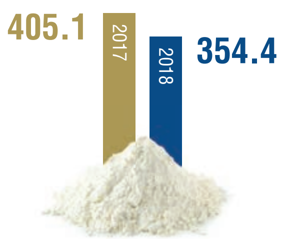
Key figures in the annual report

	2018	2017	2016	2015	2014
Processed milk and whey in tonnes	661,017	650,017	741,769	761,240	506,963
Products sold, in tonnes	154,609	190,499	237,054	242,821	99,155
Total assets (in TCHF)	575,231	582,270	425,474	340,396	331,109
Equity ratio	48.8%	53.10%	10.80%	56.60%	43.20%
Cash flow from operating activities (in TCHF)	-81,279	6,019	24,227	18,134	20,546
Market capitalisation (in TCHF)	146,346	410,700	444,417	242,044	147,787
Share price as at 31.12. in CHF	102.00	286.25	309.75	168.70	138.00
Earnings per share in CHF	2.02	18.43	14.12	11.73	17.45
Staffing levels at 31.12.	694	695	633	625	573

Market data

Net sales Dairy Ingredients

CHF Mio.

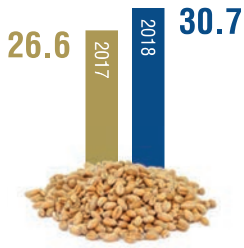


Net sales Baby Care

CHF Mio.

Net sales Cereals & Ingredients

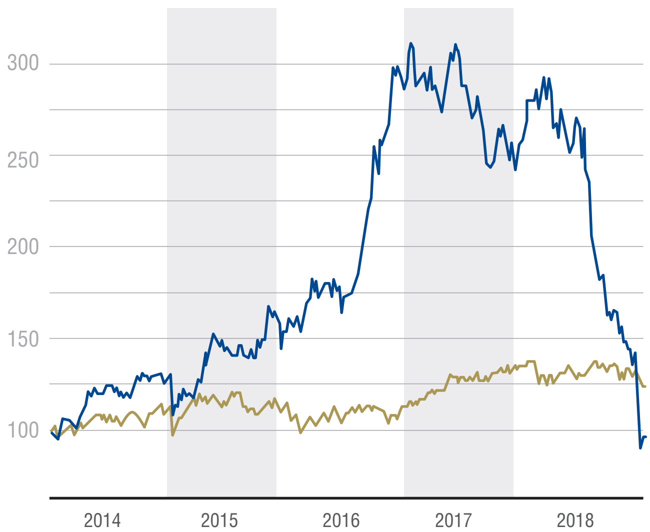
CHF Mio.



Share prices and charts

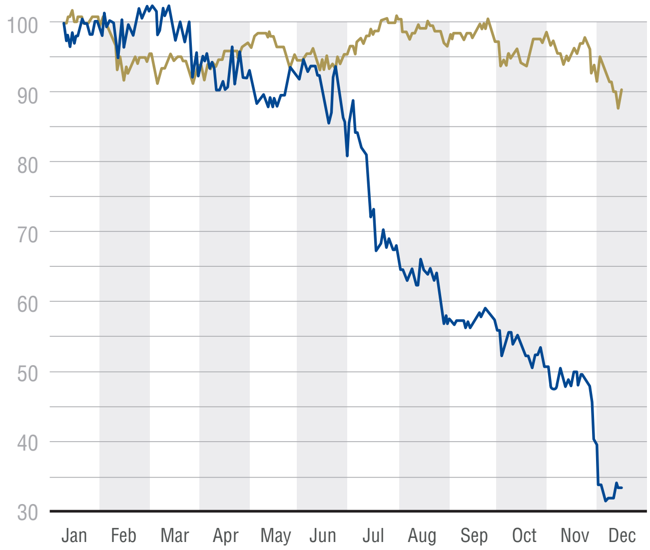
5-year comparison

%



Year comparison

%



HOCHDORF share

Comparison value (SPI)

Dear Shareholders,

In 2018, we missed our original financial targets for a variety of reasons. Notwithstanding the earnings performance, we believe that our strategy will be successful. This is why we continue to concentrate on our work and minimise existing risks in a targeted manner.

Page 24 et seq.
Dairy Ingredients report

First, let us discuss briefly the figures for the 2018 financial year: HOCHDORF processed 661.0 million kg of milk, whey, cream and buttermilk (liquid quantity) in its plants (PY: 650.0 million kg, +1.7%). As a result, our plants were well utilised.

Page 61
Income statement
Page 33 et seq.
Financial Report
Page 59 et seq.
Annual financial statement
Page 97
Proposed appropriation of retained earnings

Financial result at the lower end of adjusted forecasts
In 2018, HOCHDORF generated net sales revenue of CHF 561.0 million, in line with the forecasts published in December. Due to higher costs, EBIT amounted to CHF 18.6 million. At 3.3%, EBIT as a percentage of production revenue was slightly below the December forecast (3.5 – 4.0%). The net profit came in at CHF 8.7 million; of which CHF 2.8 million was attributable to parent company shareholders. Further details regarding financial indicators can be found in the Financial Report and in the consolidated annual financial statements.

Despite adverse market conditions in the Dairy Ingredients Division, HOCHDORF Holding Ltd pursues a continuous dividend policy. In contrast to the business performance in 2018, we therefore propose to maintain the dividend at the level of CHF 4.00. The Board of Directors also reaffirms its confidence in the established strategy and its successful implementation.

Expectations unfortunately not met
Historically, an EBIT of this size is reasonably good for the HOCHDORF Group, especially as it was negatively affected by the one-time effect of the sale of HOCHDORF Baltic Milk in the amount of around CHF 2.9 million. On the net profit level, the sale represented a burden totalling around CHF 5.9 million. However, with the investments made in facilities and in the market, a significantly higher annual result was justifiably expected. The main reasons for the failure to meet expectations are the significantly lower earnings of Pharmalys Laboratories SA, the lack of sales in China, delays in the new spray tower line and the exacerbation of problems in the Dairy Ingredients Division.

Page 27 et seq.
Baby Care report

Following the strong growth in 2017, the first half of 2018, in particular, was very weak for Pharmalys. In addition, we have partially changed our business model to ensure the Group's liquidity. As a result, some orders were cancelled or postponed.

Ongoing refinement of strategy

In 2016, we defined the current strategy, which aims to transform the HOCHDORF Group into a globally active, profitable niche company with premium products by 2020. The forward integration, our effort to move closer to end consumers, is an important part of our strategy – alongside the development of products with higher added value. We continued to work intensively on this strategy in 2018 and have made varying degrees of progress depending on the division.

Page 10

Business model, strategy and markets

With the investments made in capacity expansion at the Sulgen plant, the majority stake in the Pharmalys Group and the acquisition of Bimbosan AG, the Baby Care Division is well on its way to achieving its strategic goals by 2020. It is now important to utilise the existing capacities and, at the same time, to continue strengthening the private label business.

The Cereals & Ingredients Division is also well positioned with a broad range of premium products in niche markets. To achieve our strategic goals, our key products have to continue generating strong growth in turnover and earnings. This means that we have to press ahead with the development of Kids' Food products, including Snapz (branded products) and Zifru (private label) as well as Afrikoa chocolate.

The most demanding challenge is turning out to be the implementation of the strategy in the core Dairy Ingredients Division. This is mainly due to strong competition, price sensitivity and the impact of political decisions. In this area, for example, we were able to reduce the risk considerably in 2018 by selling HOCHDORF Baltic Milk. In market terms, we successfully developed and marketed some special milk powders. However, the worsening market situation reversed some of these successes. In the Dairy Ingredients Division, it is therefore important to adapt milk prices to the market and make them more flexible, to carry out internal optimisations, and to develop further product innovations that add value.

Change in the Board of Directors

Prof Holger Till and Dr Anton von Weissenfluh, Vice Chairman, will be stepping down from the Board of Directors at the forthcoming Annual General Meeting. The Board of Directors recommends Hans-Peter Hess and Jörg Riboni to be elected as successors.

Page 42 et seq.
Board of Directors

A total of four election proposals have been submitted by ZMP Invest AG and the shareholder group Weiss/Maurer. Apart from Jörg Riboni, these proposals concern Bernhard Merki, Markus Bühlmann and Markus Kalberer. To maintain its independence, the Board of Directors recommends not to elect these candidates.

The shareholder ZMP Invest AG requests that Dr Daniel Suter (Chairman) and Niklaus Sauter not be re-elected. For further details concerning the election of the Board of Directors, please refer to the invitation to the Annual General Meeting.

Page 14 et seq.
Interview with Thomas Eisenring

Outlook

The company is still going through a period of profound change. We are confident that we will receive the registration for the two production plants in Sulgen as well as the brands for the Chinese market during the year. The follow-on solution to the so-called "Schoggigesetz" ("chocolate law") in Switzerland means that HOCHDORF can barely pay competitive milk prices, which will lead to a significantly lower milk inflow. For this reason, we are currently in the process of implementing measures to ensure that we can maintain our ability to deliver key products. In addition, the current situation regarding milk prices and volumes, both in Switzerland and in the EU, suggests increased volatility, which means that, in the best case scenario, the results of the Dairy Ingredients Division will be narrowly in line with expectations. For further details on the projects in 2019, please refer to the reports by the individual business divisions.

Page 24 et seq.
Business divisions report

Due to the major uncertainties in the Dairy Ingredients area, the HOCHDORF Group has decided not to publish any turnover and income forecast for the time being.

We would like to take this opportunity to thank our shareholders for their trust and loyalty to the HOCHDORF Group. In particular, we would like to thank our employees for their commitment to implementing the HOCHDORF strategy and thus for their work towards a successful future for our company.

Dr Daniel Suter
Chairman of the Board of Directors

Dr Thomas Eisenring
CEO

«With the investments made, the majority stake in the Pharmalys Group and the acquisition of Bimbosan AG, the Baby Care Division is well on its way to achieving its strategic goals by 2020.»

HOCHDORF share

Page 3
Share prices and charts

Share development in 2018

At the beginning of the year, the HOCHDORF share rose slightly to reach its high for the year of CHF 314.50. This was followed by a steady slight decline until the announcement of the divestiture of HOCHDORF Baltic Milk, which caused the share price to dip briefly. A slight recovery was followed by a strong downward movement, which continued until the low of CHF 94.10 at the end of the year. The price at close of trading on 28 December 2018 stood at CHF 102.00. Accordingly, the HOCHDORF share fell by 64.37%, while the Swiss Performance Index (SPI) dropped by 8.57%. Over a five-year period (03.01.2014 – 28.12.2018), the HOCHDORF share price fell by 1.92%. As at 31.12.2018, HOCHDORF Holding Ltd had 1,434,760 registered shares (no change over previous year). Market capitalisation stands at CHF 146.3 million (previous year: CHF 410.7 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

HOCHDORF Holding Ltd is pursuing a dividend policy that focuses on continuity. With a view to the future and the one-off effects from the sale of HOCHDORF Baltic Milk UAB, the Board of Directors therefore proposes a dividend from the capital contribution of CHF 4.00 per share, the same as in the previous year. This will result in a dividend return of 3.92% as at the closing date of 28 December 2018.

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

according to categories as at 31.12.2018

Name	Listed shareholders
Natural persons	2,088
Legal entities	75
Pension funds	14
Insurance companies	2
Investment companies/funds	43
Other trusts	11
Banks	22
Public corporations	1
Total	**2,256**

Shareholders according to breakdown as at 31.12.2018

Number of shares	Registered shareholders
1 – 10	274
11 – 100	1,256
101 – 1,000	627
1,001 – 10,000	78
10,001 – 100,000	20
100,001 or more	1
Total	**2,256**

Disclosure of shareholdings

According to Art. 120 of the Federal Act on Financial Market Structures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), anyone who directly, indirectly or in consultation with third parties acquires or sells the shares of or rights of purchase or disposal regarding shares of a company based in Switzerland, the shareholdings of which are wholly or partially listed in Switzerland, or of a company based abroad, the shareholdings of which are wholly or partially listed in Switzerland, and thus reaches, falls short of or exceeds the cap 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 shareholdings are listed.

SIX

www.six-swiss-exchange.com

Financial calendar

- Annual General Meeting
  12 April 2019
- Dividend payment
  18 April 2018
- Half-yearly statement 2018
  20 August 2018

Key indicators for HOCHDORF Holding Ltd stock

		2018	2017	2016	2015	2014
Share capital as of 31.12.	TCHF	14,348	14,348	14,348	14,348	10,709
Number of shares as of 31.12.	Unit	1,434,760	1,434,760	1,434,760	1,434,760	1,070,922
Nominal value per share	CHF	10.00	10.00	10.00	10.00	10.00
Profit/loss (–) per share	CHF	2.02	18.43	14.12	11.73	17.45
EBITDA per share	CHF	25.01	38.84	23.25	21.23	25.40
EBIT per share	CHF	13.00	29.70	15.66	14.04	18.69
Earned capital per share	CHF	21.21	39.06	22.45	17.33	23.63
Equity per share	CHF	195.74	215.56	31.92	134.37	133.69
Dividend per share	CHF	4.00[1)]	4.00	3.80	3.70	3.70
Peak price	CHF	314.50	340.00	320.00	178.00	141.30
Lowest price	CHF	94.10	247.80	163.00	107.50	100.80
Price at close of trading as of 31.12.	CHF	102.00	286.25	309.75	168.70	138.00
Average trading volume per day	Unit	1,840	3,131	2,650	2,312	1,202
P/E (price/earnings ratio) as of 31.12.		50.4	15.5	21.9	14.4	7.9
Dividend return	%	3.92	1.4	1.23	2.19	2.68

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

Business model, strategy and markets

The HOCHDORF Group intends to internationalise its operations further across all business segments.

HOCHDORF focuses on the premium product segments.

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, including, in particular, infant formula. The production and marketing of high-quality cereals, dried vegetables and fruits as well as vegetable oils and flours has been geared towards providing healthy nutrition to all age groups – from babies to senior citizens.

As an international food company, the entire Group identifies with the typically Swiss values of "reliability", "quality" and "precision". Today, the Group largely operates in the business-to-business sector. The HOCHDORF Group is using acquisitions and product developments to progressively move into the business-to-consumer market. 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 2018, this division was responsible for two-thirds of the net sales revenue. The following companies form part of the Dairy Ingredients Division:

Page 24 et seq.
Dairy Ingredients report

- 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.
- Uckermärker Milch GmbH, Prenzlau (Germany), processes milk to make butter, curd and dried milk products, as well as buttermilk. The products are marketed nationally and internationally. The HOCHDORF Group owns a 60% stake in this company.

HOCHDORF has been manufacturing food for children since 1908.

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 2018, the HOCHDORF Group earned 31.4% of its revenue with infant formula.

Page 27 et seq.
Baby Care report

- The Baby Care Division of HOCHDORF Swiss Nutrition Ltd exports more than 90% of its products. The broad product range includes milk products made in Switzerland for pregnant women, infants and young children. The products are exclusively located in the premium segment.
- With the acquisition of the long-established company Bimbosan on 30 April 2018, HOCHDORF is taking an important step closer to the end consumer in the Swiss domestic market. Bimbosan offers a wide range of Swiss organic products and is the market leader in the Swiss retail market.
- The HOCHDORF Group holds a 60% stake in HOCHDORF Americas Ltd. The company sells HOCHDORF infant formula in Latin American countries.
- The Pharmalys Group 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. HOCHDORF Holding Ltd holds a 51% majority stake in the Pharmalys Group.

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 Swiss market for stabilised wheat germ and wheat germ oil. Further priorities are the development and marketing of Kids' Food products, 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 AG 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 holds a 65% stake in this company.
- Snapz Foods USA Inc. was founded in 2018. The company is responsible for marketing Snapz products in the US. HOCHDORF holds a 65% stake in the 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 worldwide. The HOCHDORF Group owns a 90% stake in this company.

Page 30 et seq.

Cereals & Ingredients report

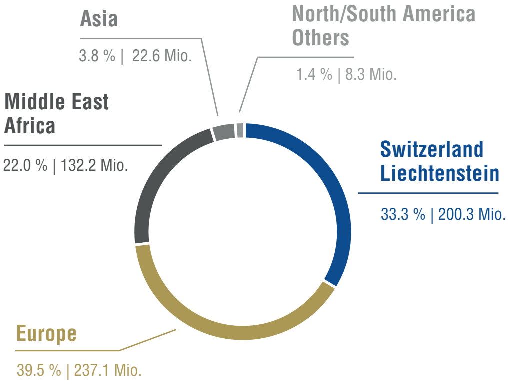
In 2018 Zifru participated for the first time in the International Taste Award and immediately won an award

The dark chocolate, containing 55% cocoa, was awarded by the the jury of the international "Great Taste".

Net sales revenue by region

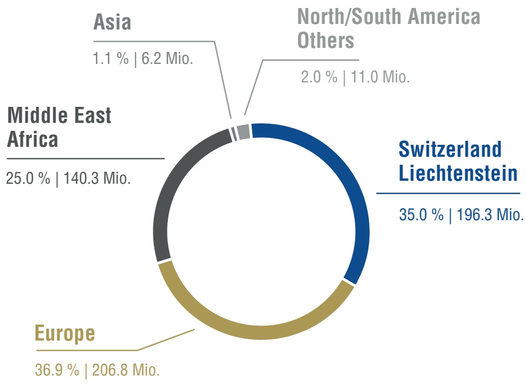
2017

relative | absolute



2018

relative | absolute



Strategy for 2018 – 2022: continue the successful strategy

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.

The HOCHDORF Group is gradually moving closer to end consumers.

Forward integration, i.e. taking a step closer to the consumer, forms an important part of the strategy. With the 51% majority stake in Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l., 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).

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

In every market, HOCHDORF positions itself as a specialist with its products. Proximity to its partners and its high degree of flexibility enables HOCHDORF to differentiate itself from other market participants through its integrated product and marketing concepts. To meet their targets, every business division will develop premium products accordingly and use them to establish itself in their respective target markets.

Page 103 et seq.
Energy consumption

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

Page 24 et seq.
Dairy Ingredients report

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 three milk plants, Hochdorf, Sulgen and Prenzlau, will be optimised to the greatest extent possible, and the product portfolio efficiently combined.

We intend to defend our market position in Switzerland, including 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 special milk powder, which is sought after on the market.

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

Page 27 et seq.
Baby Care report

Strategy and Markets for Baby Care
The Baby Care Division is international in structure and is planning 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 and related services in accordance with our premium strategy. In the medium term, the Baby Care business division intends to move closer to the consumer in the value chain with its own brands "Bimbosan", "Babina", "Primalac", "Swisslac" and "Natrapure" in selected markets.

On the production side, we are seeking to optimise existing capacity for the production of the infant formula. The capacity of the spray tower lines for the production and filling of Swiss-made infant formula is expected to be utilised to 80% by the end of 2022.

Strategy and Markets for Cereals & Ingredients

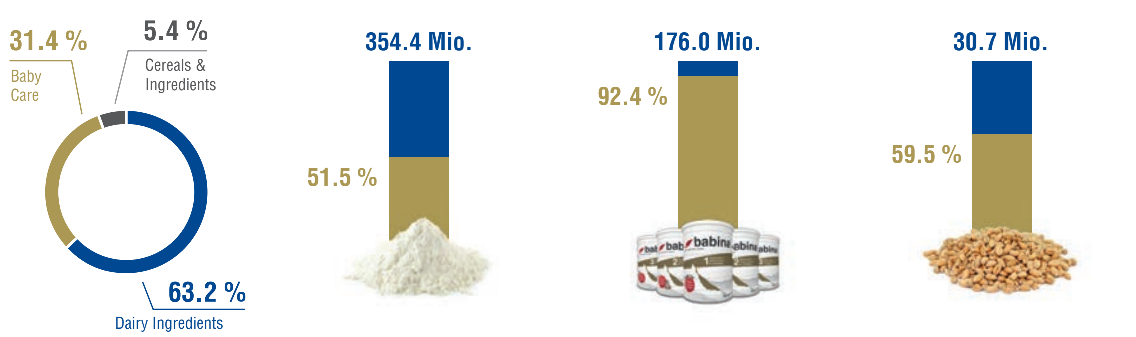
The Cereals & Ingredients Division intends to carve itself a niche in the growing market for healthy and tasty foods. With the VIOGERM® wheat germ products, various vegetable oils and flours in organic quality (Marbacher Ölmühle) and dried vegetable and fruit products (Zifru Trockenprodukte GmbH), HOCHDORF is well positioned to meet the need for a healthy and tasty food. The various products will be marketed as private label products and also sold directly to consumers (Snapz Foods AG). This business division needs to be reorganised in the coming months.

Page 30 et seq.
Cereals & Ingredients report

With HOCHDORF South Africa Ltd, HOCHDORF operates a chocolate production facility in South Africa, which is geared towards sustainability. The chocolate is primarily sold as a private label or directly to consumers under the "Afrikoa" brand. In the medium term, HOCHDORF also intends to market its products internationally.

Distribution of net sales revenue

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



«HOCHDORF is on the right track for the future.»

Dr Thomas Eisenring, how satisfied are you with the 2018 business year?

› The past year was challenging and brought some surprises. Regrettably, our results were below expectations. This is despite the fact that we considered 2018 to be a transition year, and we had not, therefore, set our targets for the year too high. We have clearly missed our forecasts issued at the beginning of the year. We cannot say that we are satisfied at a time like this.

2018 was a turbulent year for the HOCHDORF Group. What are you happy about? What could you have done without?

› The acquisition of Bimbosan AG was definitely an important step in the implementation of our strategy. We enjoy working with the people at Bimbosan. With the Bimbosan brand, we now have a strong brand in our domestic market. This is an important piece of the puzzle when working with new and existing customers. Another highlight was the completion of construction and installation work in Sulgen.

We could have done without the aggravation of the problems faced by the Dairy Ingredients Division in Switzerland and Germany. The significantly weaker turnover at Pharmalys was another disappointment. We were also looking forward to the registration of our trademarks for the Chinese market, which was not forthcoming in 2018.

With the acquisition of Bimbosan AG, HOCHDORF has taken another step towards becoming a player in the business-to-consumer market. What are your near-future plans for the Bimbosan brand?

› In the domestic market in Switzerland, we want to continue expanding our market position. To accomplish this, we will invest in marketing over the next few years. This step is important in our effort to advance the international marketing of this well-established Swiss brand. We have already had initial discussions in this regard. We are making good progress with the internationalisation of the brand and we have already signed interesting contracts for Vietnam. We are also eyeing Indonesia as another potential target market.

Tower 9 has been in commercial operation since August 2018. How satisfied are you with your new plant?

› The Sulgen investment project teams have done a great job in recent years. In addition to the production line for infant formula, the associated infrastructure also had to be put in place. For example, the electricity, water and gas pipelines had to be adapted to new requirements. Naturally, the new buildings with the spray tower, the high-bay warehouse and the filling line are more visible. I am proud that we could provide the Baby Care Division with such a state-of-the-art facility to advance its business. As is typical with such a complex facility, the spray tower line is not yet operating at full capacity. This will happen gradually. We were able to tap into the experience we gained when we put the first large infant formula line into service in Sulgen. I am very satisfied with the products made at the new plant.

Dr Thomas Eisenring
CEO

The goal of the HOCHDORF Group is to become a global, profitable niche company with premium products by 2020. Is this goal still within reach?

› Of course this goal is still within reach, even if there is still a lot to do. Although we described 2018 as a transitional year, we already generated a higher EBIT margin than a few years ago. If one ignores for a moment the challenges and problems in the Dairy Ingredients Division, we have already taken many important steps towards achieving our goal in the other divisions. To achieve our goal, smaller companies such as HOCHDORF South Africa Ltd, Zifru Trockenprodukte GmbH or Snapz Foods AG must also grow and become profitable.

The 2018 financial year was rather difficult for the shareholders of HOCHDORF, and the falling share price caused uncertainty. What are you doing to boost investor confidence?

› HOCHDORF is on the right track for the future. The Baby Care Division, in particular, offers potential for future growth. We are also well positioned in the area of healthy infant formula. The situation is more challenging in the Dairy Ingredients Division, which also finds it more difficult to tap into the potential to market higher-quality products.
More generally, we are also now more conservative with our forecasts. We learned our lessons in 2017 and 2018 as we moved closer to the end consumer. HOCHDORF will grow steadily over the next few years in the high value-added areas, while operating in a dynamic environment. This is why it is important to pursue our strategic objectives consistently and always anticipate that there will be fluctuations.

Which important projects were completed in 2018?

› The major investment in Sulgen was completed when the spray tower was put into commercial operation in August 2018. The objective now is to utilise the capacity of the plants more fully. In 2019, we expect the capacity utilisation of the new plants to be at a low to medium level, as some preparatory work will be necessary for market projects in the infant formula area.
In market terms, we were also able to complete some attractive customer projects, and the integration of Pharmalys, Bimbosan, Zifru and Snapz is progressing well.

What challenges is the HOCHDORF Group facing in 2019?

› In the current business year, we will concentrate on three major challenges: In the Dairy Ingredients Division, we need to get the situation with the new Schoggi law and our plant in Prenzlau under control. Moreover, we will focus on the further integration of our new subsidiaries and endeavour to secure new orders to utilise the capacity of our facilities in Sulgen.

Let's move on to the "Dairy Ingredients" challenge: given the complexity of the issues, how do you want to keep track of things and make the area successful again?

› The Dairy Ingredients Division is not profitable at the moment, which needs to change as quickly as possible. With the sale of HOCHDORF Baltic Milk, HOCHDORF has freed itself from some risks and reduced internal complexity. We are mainly focusing on three issues in an effort to make the division more profitable again: flexible milk pricing, internal optimisations and product innovations offering high added value; i.e. reduction in mass-produced goods.

In Switzerland, the new "Schoggigesetz" makes the situation even more difficult because, in our view, the creation of the new "fat subsidy" has diverted part of the available funds. As regards the production of milk-based export products, this makes it difficult to pay competitive prices for raw milk, and the milk thus flows into other processing channels. We will therefore analyse our product range to ensure that we can maintain our ability to deliver key products. At the same time, we have to think about our processing capacity.

Where exactly are the challenges in the integration of the acquired companies?

› In 2018, we largely completed the integration from an organisational and technical perspective. In the case of smaller acquisitions, these tasks usually proceeded without major problems.

This was not entirely the case at Pharmalys. Almost overnight, we evolved from a business-to-business player to a business-to-consumer provider. The main challenge I see here is the integration of Pharmalys without jeopardising market expansion. This gives rise to complex questions that can ultimately only be decided together with Pharmalys.

The investment projects in Sulgen were completed last year. What is the expected capacity utilisation of these plants in 2019?

› Overall, HOCHDORF has invested more than CHF 100 million in Sulgen over the past few years. To ensure that these investments pay off as quickly as possible, we are now dependent on additional volumes from the Baby Care Division. This year, however, thanks to the growth generated by our existing customers and new customers, we anticipate only low to medium capacity utilisation. We expect the new spray tower line to run at 80 % capacity from 2022. We are looking forward to the pending trademark registrations for China. If it goes according to plan, this would allow us to increase capacity utilisation considerably. Our Chinese customers have long been waiting for us to be able to supply them again.

Where do the relatively small subsidiaries Snapz, Afrikoa and Zifru stand in this process? How do you see their future?

› Afrikoa and Zifru have two things in common: they produce and market great products but still have a volume problem. Afrikoa's turnover developed very well compared with the previous year. In addition, we plan to market the premier chocolate outside South Africa in 2019. At Zifru, we do not have the turnover comparison with the previous year, but we are reasonably satisfied with the course of business.

At Snapz, things are a little different. Snapz is a snack brand known in a limited number of markets for their dried fruits and vegetables. In 2018, we mainly did preparatory work and talked to potential distributors. In the current financial year, we expect turnover and earnings to grow. As Snapz has the products manufactured by Zifru, this will also have a positive effect on the turnover of Zifru Trockenprodukte GmbH.

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

«Overall, HOCHDORF has invested more than CHF 100 million in Sulgen over the past few years. To ensure that these investments pay off, we are now dependent on additional volumes from the Baby Care Division.»

«Consumer awareness and understanding of nutrition is increasing. The entire value chain can play an important role in food purchasing decisions.»

INFANT AND YOUNG CHILD
FORMULA IN ORGANIC QUALITY

«Sustainable from a very early age – the market for organic infant formula is growing.»

Fresh, natural and requiring minimal preparation – parents increasingly favour a diet that is as natural as possible and opt for foods that are grown organically, especially for their children. The organic share of the global baby food market has risen sharply in recent years.

Foods that are grown as naturally as possible are booming. There is a growing interest in natural produce – "urban gardening" is one case in point. In New York, London and Zurich, high above the rooftops of our major cities and small towns, thousands of tiny gardens are appearing. These balcony boxes and raised beds even produce the best in organic quality – plum tomatoes, red and yellow peppers and potatoes to name but a few.

Organic products: purchasing motives and behaviour
People have always found natural products appealing. The results of a large-scale consumer survey of 30,000 people in over 60 countries conducted by the international market research institute Nielsen were therefore hardly surprising. Respondents cited freshness, natural ingredients and minimal processing as the most desirable features of good food.

But when it comes to organic infant formula there is more to consider than these three important factors. The value chain is the main focus for buyers. Key motives include animal welfare, environmental protection, the preservation of biodiversity, but also altruistic ways of acting such as unselfishness, self sacrifice and internalised moral attitudes.

An increasing preoccupation with nutrition is reflected in the sales growth of organic foods. The global market for organic products reached the USD 90 billion mark in 2017 and is still growing. The worldwide share of organic baby food is also impressive: a total of 723 new baby food products were launched last year, around 283 of these in the organic segment.

Consumer behaviour, attitudes towards the environment and eating habits change from generation to generation, or sometimes even faster. But one constant remains: parents want to provide the best for their children, to give them a good start in life.

«Organic labels identify foods with strict regulations on their origin and processing. HOCHDORF manufactures products both in accordance with the legal requirements of the Swiss Organic Farming Ordinance and organic standards governed by private law.»

«Organic food – a global trend.»

The demand for organic food is high. Yet before a product can be labelled "organic", it must meet a host of legal requirements, guidelines and rules related to its origin and processing.

To be awarded an "organic" label, a product must meet the basic requirements of the country-specific organic regulations. The principles of the Swiss and European organic farming regulations are practically identical and include, among other things, compliance with natural cycles, the avoidance of synthetic and chemical additives and ingredients, and a ban on the use of genetically modified organisms.

Organic agricultural ingredients must be used for the production of organic food. At least 95 per cent of the agricultural ingredients must be organically farmed for the end product to carry an "organic" label.

In addition to legal requirements and agreements, there are additional organic standards governed by private law. In some cases these requirements are even higher than those of the organic regulations. As well as meeting these "organic" standards, organic baby food must also comply with the strict laws and guidelines of food law.

Who is purchasing organic food?
In Switzerland, women are the main purchasers of organic products. There are also clear differences within the different language regions: more organic foods are purchased in German-speaking Switzerland than in the French and Italian regions. The level of education and income bracket of purchasers also plays a role: the higher the educational level, the more often organic products are purchased. However, the consumption of organic products above a certain level is no longer income-dependent. While there is a continuous increase in the middle income classes, organic consumption decreases again in the upper income classes. Age does not influence organic food consumption.

Worldwide boom in organic foods
The growth rate is particularly high in China, North America and northern Europe. In Germany it was just under 10 per cent in 2016; in France it even reached 20 per cent. Countries such as Spain, Ireland and Sweden had already experienced the same growth a year earlier and Switzerland has also broken previous records. The turnover of organic food increased by 8.1 per cent from 2016 to 2017 and now accounts for a total volume of CHF 2.7 billion.

Milk fat – better than its reputation

Milk fat has been classed as unhealthy for several decades. We now know that this assumption was wrong. A large-scale study had previously showed a connection between heart attacks and saturated fatty acids. The results of the study triggered an anti-fat theory, which continues to have an impact today.

Animal fats in particular, including milk fats, were criticised for their high content of saturated fatty acids. In the meantime, however, new studies have clearly shown that saturated fatty acids per se do not lead to heart attacks. Milk and milk products also contain small amounts of monounsaturated and polyunsaturated fatty acids. A further advantage are their natural ingredients such as proteins, vitamins and calcium.

A cross-comparison covering all continents and 14 different countries shows that milk and dairy products play an important role in diets everywhere. A healthy diet can also include whole milk and normal-fat dairy products.

INFANT AND YOUNG CHILD FORMULA IN ORGANIC QUALITY

«Organic quality foods – even for our smallest ones.»

Natural alternatives

The experts around the world agree: breastfeeding promotes optimal growth, age-appropriate development and the health of babies. It also has short-term and long-term benefits for the mother and child. HOCHDORF supports this global recommendation entirely: breast feeding provides the best nutrition for babies.

But what if a child cannot be breast fed and relies on bottle feeding or a combination of the two? And if the parents also place value on organic nutrition?

Since our company was first founded, we at HOCHDORF have given a lot of thought to various types of nutrition as well as to the physiological aspects of nutrition, incorporating these specific requirements into our product development – including the use of organic ingredients in infant formula.

Focussing on organic quality

We were one of the first companies to supply organic infant formula in Switzerland and we have been producing, marketing and exporting these products since the 1990s. Infant formula production is always governed by very strict laws, recommendations and guidelines. While both conventional and organic infant formula are subject to food laws, the organic line must also meet additional organic regulations.

In addition to producing organic infant and follow-on formula, HOCHDORF also provides other high-quality children's specialities. Our cereals are perfect for infants from the age of 6 months, available in different varieties. Our dried fruits and vegetables are an ideal addition to the diets of children from the age of three. We see it as our responsibility to offer healthy food not only for infants, but also for toddlers and older children. A balanced diet in childhood lays the foundation for good health in later life.

«Love of nature – more and more parents prefer to buy organically-grown foods for their children. HOCHDORF organic products make this possible from the very first months of a child's life.»

Dairy Ingredients Division

The Dairy Ingredients Division had a challenging year caused by considerable price spreads between the milk fat and milk protein valuations on the international markets. While these spreads remain considerable, the trend is decreasing. The activities in Switzerland were mainly affected by the implementation of the follow-on solution to the so-called "Schoggigesetz" (chocolate law). Despite strong competition, we were able to maintain our strong market position in the Swiss market for roller-dried whole milk powder. High stocks and, as a result, high sales of block butter in the EU led to declining market prices in the second half of the year. The EU intervention stocks of skimmed milk powder have been significantly reduced during the year.

In 2018, the Dairy Ingredients Division generated net sales revenue of CHF 354.4 million, which is in line with the net sales revenue forecasts of CHF 350 – 380 million. The processed quantities (liquid quantities) of milk, cream, whey and permeate declined slightly by 1.7% to 661.0 million kg. The liquid quantities processed by HOCHDORF Swiss Nutrition Ltd in Switzerland remained at the previous year's level. However, the processed milk quantities declined in favour of higher whey quantities. The liquid quantities processed by Uckermärker Milch GmbH increased by more than 20% compared to 2017 to 234.3 million kg (PY: 193.8 million kg). The milk supply was switched to direct suppliers.

Companies
Effective from 1 April 2018, the long-time Managing Director of the Dairy Ingredients Division of *HOCHDORF Swiss Nutrition Ltd* Werner Schweizer was replaced by Dr Peter Pfeilschifter.

On the product side, we have begun the process of optimising our portfolio to eliminate loss makers. In addition, our development team worked on customer-specific new developments, including protein developments with higher added value as well as process and product improvements, which bring both functional and cost advantages. Furthermore, it was possible to agree a distribution licence for non-EU markets and the United Kingdom with a European specialist for roller-dried whole milk powder. Sales partnerships were further expanded in target countries that are important for our business.

Measures already initiated should make the Dairy Ingredients division profitable again quickly.

The implementation of the follow-on solution to the "Schoggigesetz" and the large number of related, challenging negotiations with customers and suppliers was at the core of activities in the Swiss market. It became clear that the changes will have a strong impact on *HOCHDORF* due to its large share of milk exports affected by the lower "Schoggigesetz" subsidies. While HOCHDORF was able to reach agreements that facilitated the start of the follow-on solution, their long-term effectiveness is yet to be proven in the long-term.

Uckermärker Milch GmbH focused on the development and marketing of special milk powders with higher margin potential. The company managed to achieve a strong market position for super kosher milk powder in its first year. It found a partner that helped to resume curd production in the regional brand segment. At the same time, the year-round low milk protein prices and the additional drop in fat prices in the second half of the year weighed heavily on earnings. The company was therefore forced to take countermeasures on the cost side resulting in year-end job cuts.

Outlook

The long and dry summer of 2018 points towards a drop in milk production in Europe in 2019. In addition, the EU intervention stocks have been almost completely sold off. Therefore, we expect higher milk prices, which are likely to also affect our selling prices for milk proteins. Due to the substantial uncertainty, we have decided not to publish any turnover forecast for the time being.

In Switzerland, the situation of *HOCHDORF Swiss Nutrition Ltd* was further exacerbated by the follow-on solution to the "Schoggigesetz". Due to the significantly lower export subsidies, HOCHDORF can barely pay competitive milk prices for a large share of milk volume. The resulting lower milk inflow could lead to supply issues, which is why the company implemented measures to streamline its product range.

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The effects of the solution to replace the "Schoggi" law will become apparent in 2019.

To ensure that the Dairy Ingredients Division generates positive results again in the future, the company implemented cost-cutting measures in both Switzerland and Germany. In addition to the difficult implementation of the follow-on solution to the "Schoggigesetz", the most important challenges *HOCHDORF Swiss Nutrition Ltd* faces in an effort to improve its results involve the segment-specific milk procurement and production, the optimisation of the customer and product portfolio as well as the optimisation and flexibilisation of plant utilisation.

Uckermärker Milch GmbH plans to further increase the sales volume of special milk powder, curd and buttermilk in 2019. A crucial factor underpinning the achievement of positive results is also the temporal harmonisation between commodity contracts or prices and sales contracts in the back-to-back sense.

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Dr Peter Pfeilschifter
Managing Director Dairy Ingredients

Strategy in brief

«The Dairy Ingredients Division aims to defend its strong domestic market position in Switzerland and at the same time explore international opportunities with selected added-value and high-quality products and services.»

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, buttermilk proteins and powder, curd products.

	2018	2017	2016	2015
Net sales revenue (in TCHF)	354,419	405,131	393,099	415,379*
Share of revenue abroad (in %)	51.5	55.4	55.1	55.2
Volumes sold (in tonnes)	128,042	165,846	212,421	216,511

* Gross sales revenue (in TCHF)

Baby Care Division

The acquisition of the long-established Swiss company Bimbosan AG and the commissioning of the new production facility represent important strategic milestones. In market terms, the business division achieved good organic growth, helping to offset the loss of sales in China.

In 2018, the Baby Care Division generated net sales revenue of CHF 176.0 million (PY: CHF 168.8 million; +4.3%). The increase in turnover is attributable to the acquisition of Bimbosan as well as the organic growth achieved with existing customers. Unfortunately, we were unable to reach the targeted turnover of CHF 200 – 215 million as projected in the interim report.

Companies

In August, *HOCHDORF Swiss Nutrition Ltd* launched the first commercial production runs on the new production and filling line in Sulgen. In the next step, the company aims to increase the capacity utilisation of the new plants gradually by adding new customers and generating growth from the existing customer base. The existing facilities for the production of infant formula were very well utilised in 2018. HOCHDORF has also made the strategic decision to produce the infant formula for the Chinese market exclusively in Sulgen.

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Pharmalys Laboratories SA recorded two very different sets of half-year results: The weak first-half results were followed by relatively strong results in the second half. Overall, the strong growth momentum of 2017 could not be repeated. This is not least because we have partially changed the business model to ensure sufficient liquidity for the Group. As a result, some orders were cancelled or postponed.

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Pharmalys and HOCHDORF's presence as exhibitors at the ESPGHAN international conference for paediatricians was a great success.

To strengthen the Primalac and Swisslac brands, we have increased the marketing budget in 2018, among other measures. The higher costs for entering markets across the various countries in Africa and the Middle East also weighed on the result. Nevertheless, the new market entries can be described as successful. In addition, the company managed to maintain or even increase market penetration in some existing countries.

Bimbosan AG became part of the HOCHDORF Group at the end of April 2018. The well-established Swiss company generated sales and earnings that are in line with expectations. The communication activities in Switzerland, which had been stepped up before the acquisition, continued as planned. The strong market position in the domestic market supports the internationalisation of the brand, which we will launch in Vietnam. The documents for the registration of the Bimbosan trademark in China have also been submitted.

Outlook

In 2019, we hope to register the submitted trademarks for the Chinese market. However, according to a relatively new regulation, the production plant must first be audited again by the designated authorities. Based on the information we received, this audit will cover the first half of 2019. If the outcome of the audit is positive, we will be able to supply infant formula to the Chinese market by 2020 at the latest.

It is now important to integrate Pharmalys in a way that does not compromise the expansion course.

As a result of the newly created capacities and sales efforts, we expect higher net sales revenue in 2019 compared with the previous year, in the range of CHF 220 – 240 million. For *HOCHDORF Swiss Nutrition Ltd*, the capacity utilisation of the new facilities is a high priority. Despite some new customers and the projected growth of existing customers, we expect a relatively low capacity utilisation of the new plant in 2019. The additional depreciation will have an adverse effect on earnings. Successful registration of our plants and trademarks for the Chinese market would have a positive impact on capacity utilisation.

Pharmalys Laboratories SA aims to achieve controlled growth over the next few years with its Primalac and Swisslac brands. The challenge is to achieve sustainable growth while securing the liquidity situation. Pharmalys wants to use both existing and new products to achieve growth in existing and new markets.

In the 2019 financial year, *Bimbosan AG* will invest further in the long-standing Swiss brand both in Switzerland and internationally. We also expect sales to grow thanks to the ongoing internationalisation process. Again, the successful registration of the trademark for China could provide the international marketing effort with an additional impetus.

Strategy in brief

«We offer our customers a broad range of high-quality, Swiss-made food products for infants and children. We also support our partners with services such as sales and marketing training upon request. The Baby Care Division has an international presence and it plans to grow its business in Asia, the Middle East, Africa and Latin America. In selected markets, we are seeking to get closer to the end consumer in the value chain with our in-house brands Primalac, Swisslac and Bimbosan. To achieve this, we are investing in the market presence of our own brands.»

Product range

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

	2018	2017	2016	2015
Net sales revenue (in TCHF)	175,960	168,751	123,029	110,417*
Share of revenue abroad (in %)	92.4	95.8	95.5	91.7
Volumes sold (in tonnes)	17,929	16,751	17,159	16,763

* Gross sales revenue (in TCHF)

Cereals & Ingredients business area

The Cereals & Ingredients Division recorded slight growth compared to the previous year. 2018 was shaped by the integration of Zifru Trockenprodukte GmbH and Snapz Foods AG as well as the growth of HOCHDORF South Africa Ltd and Marbacher Ölmühle GmbH.

The Cereals & Ingredients Division generated net sales revenue of CHF 30.7 million in 2018 (PY: CHF 26.6 million; +15.0 %). Marbacher Ölmühle was the main driver behind this growth. Overall, this division has successfully developed several new products and marketed them internationally. In December 2018, Dr Thomas Eisenring, CEO, assumed responsibility for the division on an interim basis. The handover of responsibility from Michel Burla, the long-standing Managing Director, was well organised and smooth.

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Cereals & Ingredients further expanded its Private Label division.

Companies

In the private label category, the Cereals & Ingredients Division of *HOCHDORF Swiss Nutrition Ltd* launched new Kids' Food products, such as healthy crisps for children aged six months and older, a porridge with whole Swiss milk as well as dried fruits and vegetables for children aged three and older. The entire private label area was given a makeover, resulting in a new, more colourful image, which is more representative of the underlying dynamism and spirit of innovation. The Group received encouraging feedback at the PLMA international private label trade show in Amsterdam.

The integration of *Zifru Trockenprodukte GmbH*, which was acquired in November 2017, into the HOCHDORF Group was efficient and successful. This is evident, for example, from the fact that Zifru appeared only a few months later, in February 2018, at the BIOFACH trade show in Nuremberg together with Marbacher Ölmühle GmbH.

Marbacher Ölmühle GmbH and *Zifru Trockenprodukte GmbH* are well on track. They were able to gain new customers throughout the year and largely retain existing ones. Marbacher Ölmühle, for example, increased its net sales revenue from CHF 9.9 million to CHF 12.1 million (+22.8% compared to the PY). Both companies also fared well in terms of the outstanding quality of their products: The hemp seed oil produced by Marbacher Ölmühle won three out of three possible stars at the international Superior Taste Award, and the apricot kernel oil received two stars. Zifru Trockenprodukte GmbH submitted a product to this competition for the first time. The dried apple slices immediately won two stars. The awards are presented every spring by the International Taste & Quality Institute iTQi.

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While *HOCHDORF South Africa Ltd* managed to more than double its sales of Afrikoa chocolate for another consecutive year, they still remain at a relatively low level. Nevertheless, the quality of its products is excellent: The dark chocolate, containing 55% cocoa, received two out of three stars this summer from the jury of the international "Great Taste" awards. The "Great Taste" is a globally important food and beverage award and is considered to be the "Oscar" in the food industry. It is organised by the Guild of Fine Food in the UK.

Outlook

The Cereals & Ingredients Division is expected to step up its expansion plans this year. The focus will be on the private label sector as well as the brands Snapz and Afrikoa. The first major orders for Snapz products have been received from the US and China. Snapz will also be launching a new website in the first half of the year. The division will also be present at various trade shows and will step up its online and social media activities.

We are planning to market the Afrikoa chocolate outside South Africa.

In the current business year, the product segments baking mixtures, VIOGERM® wheat germ and extrudates will be subjected to an analysis. Above all, it looks like a large part of the bakery business may have to be abandoned. Accordingly, the Cereals & Ingredients Division expects to generate lower net sales revenue in 2019 than in the previous year.

Strategy in brief

«Cereals & Ingredients aims to establish itself worldwide in the private label category and the field of healthy kids' food under the Snapz brand. In the medium term, HOCHDORF South Africa Ltd will seek to market its Afrikoa chocolate internationally. The portfolio will be screened with respect to all other products and adjusted depending on the result. The Cereals & Ingredients Division will focus more on niche products and move closer to the end consumer.»

Product range

Food Ingredients (VIOGERM® wheat germ and wheat germ oil as well as crispy cereals – crisps), wellness products (nutritional supplements – capsules and tablets), tonics, cold-pressed vegetable oils, various types of vegetable flours from predominantly organic cultivation, dried fruits and vegetables and chocolate.

	2018	2017	2016	2015
Net sales revenue (in TCHF)	30,652	26,645	25,478	24,859*
Share of revenue abroad (in %)	59.5	53.1	49.0	45.9
Volumes sold (in tonnes)	8,638	7,902	7,474	8,547

* Gross sales revenue (in TCHF)

Financial Report

Transition year – major challenges

As announced, HOCHDORF was unable to continue on its growth path and recorded a significant drop in the Group’s profitability in 2018. The main factors that led to the lower results were the lack of sales in China in the Baby Care Division, the significantly lower result of Pharmalys Laboratories SA, the delay in the commissioning of Tower 9 in Sulgen, the market distortions and margin losses in the Dairy Ingredients Division and the loss from the sale of the holding in HOCHDORF Baltic Milk UAB. HOCHDORF is still in the process of transforming itself into a "niche player" and continues to pursue this path with dedication. Net sales decreased by 6.6% to CHF 561.0 million and EBIT fell by 56.2% to CHF 18.6 million.

The main contributor to the lower result was Pharmalys Laboratories SA, which was unable to repeat the strong turnover results from 2017. Nevertheless, we remain positive about the future and we believe that developments are fundamentally heading in the right direction. The traditional business of HOCHDORF Swiss Nutrition Ltd saw solid growth in the Baby Care Division despite the loss of sales in China and the lower sales of Pharmalys. The challenging market environment once again had a strongly negative impact on the Dairy Ingredients Division. Lower milk-processing quantities and, in particular, the developments in export subsidies (so-called "Schoggigesetz" or chocolate law) squeezed earnings. The Cereals & Ingredients Division posted a positive result. However, adjustments will also have to be made in this area in the future. The foreign subsidiaries closed the year with negative results, with Uckermärker Milch GmbH being especially disappointing.

Page 24 et seq.
Business divisions report

Difficulties in Europe
In Europe there have not been any significant changes to the environment compared to the previous year. The milk market continues to be characterised by price distortions for fat and protein. This is also the main reason why HOCHDORF decided to sell its production plant in Lithuania. Significant improvements will have to be made at the Prenzlau plant in the coming year. This poses a major challenge, as the price pressure in the retail food industry is very high. Zifru and Snapz will focus on marketing their award-winning products in the Kids’ Food area.

Page 11
Net sales revenue by region

Positive outlook on developments in the Middle East/Africa
The Middle East/Africa region continues to be the focal point of activities in the Baby Care Division. With Pharmalys, we are very well positioned here, and the potential is enormous. We were able to tap into new markets in 2018. The long credit periods for payment pose a challenge in these markets, with growth tying up liquidity. Liquidity is one of the key issues for Pharmalys, and the organisation had to take measures to adapt to this situation.

Caution in Asia
Asia is still the region with the largest market potential for Baby Care, with China standing out as a particularly attractive market. HOCHDORF has, therefore, already applied for registration of trademarks in 2017 under the new legislation. However, China has declined nearly all trademarks worldwide in the current year. HOCHDORF has also been affected by this, as its trademark registrations are still pending. It is impossible to predict when this will be completed. However, we remain active in this area and we have stepped up our efforts to have our trademarks registered.

Marcel Gavillet
CFO

Page 61

Consolidated income statement

Slightly lower net sales – higher operating expenses

Despite the slower growth, we recorded a gross profit largely at the previous year's level. It decreased from CHF 172.1 million to CHF 171.8 million. The new gross profit margin was 30.0% (PY: 28.5%).

Operating expenses were up 16.8% compared to the previous year. This, however, also includes prepayments relating to the new infant formula plant and Tower 9, involving the recruitment and training of personnel. The higher marketing costs for Pharmalys also had an impact on operating expenses. The changes were also influenced by the acquisition of Bimbosan AG and the sale of HOCHDORF Baltic Milk UAB. The total number of employees decreased year-on-year from 695 to 694.

Unsatisfactory EBIT

The operating profitability of HOCHDORF has deteriorated significantly for the reasons stated above. In 2018, EBIT fell by 56.2% to CHF 18.6 million. We believe that the Group is on the right track and that results will improve, in particular in the Baby Care Division. The Dairy Ingredients Division remains a challenge due to the changes in the new "Schoggigesetz", or chocolate law. EBIT for 2018 was also adversely affected by the CHF 2.9 million write-down on the sale of HOCHDORF Baltic Milk UAB.

Financial result

The strengthening of the Swiss franc led to an overall negative financial result. In addition, the Group incurred exchange losses of around CHF 3.0 million resulting from the sale of the holding in HOCHDORF Baltic Milk UAB. It should also 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.

Taxes

Operating tax expenses were in line with expectations. The tax expenses decreased in line with the overall suppressed development of the companies. In the year under review, deferred taxes on newly incurred tax losses in the companies were capitalised.

Cash flow and financing
There was also a significant drop in cash flow from operating activities before changes in working capital, which decreased from CHF 56.0 million to CHF 30.4 million. The significantly lower operating results had considerable impact here. Cash flow from operating activities was down year-on-year from CHF 6.0 million to CHF –81.3 million. The main reason for this is the residual purchase price payment for Pharmalys. "Inventories", in particular, have increased considerably as a result of the expansion of business activities. Long credit payment terms in the MEA region (Middle East Africa) pose a challenge here. Nevertheless, the item "accounts receivable" was reduced overall.

Page 62 et seq

Consolidated cash flow statement

In the area of investments, more than CHF 35.5 million was spent on plants/buildings/intangible assets. With the completion of the Sulgen plant, the Group was able to finance the remaining investments from current cash flow. Work on the new T9/can line 2 was largely completed in 2018. For 2019, we are planning largely only replacement investments.

As expected, free cash flow was negative in 2018 due to the construction of the new T9 and the purchase price payments for Pharmalys and Bimbosan. For 2019, we expect a slightly positive free cash flow.

Net debt increased from CHF 0 million in December 2017 to CHF 141.3 million. The hybrid bond and the convertible bond are classified as equity and do not affect net debt.

The equity ratio fell from 53.1% at the end of 2017 to 48.8%. As mentioned above, this is due to the higher level of debt. The final purchase price for Pharmalys was slightly adjusted again at the end of 2018. The reduction is fully attributable to goodwill, which was offset against equity.

Page 60

Consolidated balance sheet as at 31/12

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	2018	2017	2016	2015	2014
Processed milk and whey in tonnes	661,017	650,017	741,770	761,240	506,963
Quantities produced including cream in tonnes	141,380	186,845	236,179	241,754	99,720
Turnover (net revenue from goods and services)	561,031	600,527	541,606	543,688	420,353
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	**35,886**	**55,719**	**33,360**	**30,455**	**27,197**
As % of production revenue	6.3%	9.2%	6.1%	5.6%	6.4%
Earnings before interest and taxes (EBIT)	**18,649**	**42,616**	**22,464**	**20,146**	**20,016**
As % of production revenue	3.3%	7.1%	4.1%	3.7%	4.7%
Earnings before taxes	**10,405**	**45,856**	**22,377**	**15,137**	**17,849**
As % of production revenue	1.8%	7.6%	4.1%	2.8%	4.2%
Net profit	**8,656**	**40,846**	**19,406**	**13,024**	**16,139**
As % of production revenue	1.5%	6.8%	3.6%	2.4%	3.8%
Personnel expenses	**52,980**	**50,100**	**47,796**	**46,227**	**34,802**
As % of production revenue	9.2%	8.4%	8.8%	8.5%	8.2%
Depreciation of tangible assets	**13,030**	**12,336**	**10,386**	**9,972**	**6,782**
as % of average net cash position	4.4%	5.1%	5.6%	6.2%	6.1%
Investments in fixed assets	**34,924**	**84,788**	**42,217**	**22,211**	**16,952**
as % of production revenue	6.1%	14.0%	7.8%	4.1%	4.0%
Earned Capital	**30,425**	**56,035**	**32,213**	**24,870**	**25,310**
in % of net sales revenue	5.4%	9.3%	5.9%	4.6%	6.0%
Cash flow from operating activities (cash flow)	**-81,279**	**6,019**	**24,227**	**19,011**	**20,546**
as % of net sales revenue	-14.5%	1.0%	4.5%	3.5%	4.9%
Free cash flow (loss)	-148,530	-84,078	-33,519	-3,736	-11,903
Equity ratio	48.8%	53.1%	10.8%	56.6%	43.2%
Interest cover (EBIT/interest expenses net)	1.6	8.8	19.2	11.0	8.6
Number of shares, outstanding, in units	1,434,760	1,434,760	1,434,760	1,434,760	1,070,922
Earnings per share in CHF	2.02	18.43	14.12	11.73	17.45
Earned Capital per share in CHF	21.21	39.06	22.45	17.33	23.63
Dividend	40%	40%	38%	37%	37%
Payout ratio	201.74%	21.51%	27.35%	39.26%	24.55%
Share price as at 31.12. in CHF	102.0	286.25	309.75	168.70	138.00
Dividend return	3.92%	1.40%	1.23%	2.19%	2.68%
Price/earnings (P/E) ratio	50.4	15.5	21.9	14.4	7.9
Market capitalisation	146,346	410,700	444,417	242,044	147,787
Staffing levels as at 31.12.	694	695	633	625	573

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.

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.

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 and did take part in three 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.

Corporate Governance

Corporate Governance

The HOCHDORF Group maintains an open, transparent and consistent information policy. We advocate responsible Corporate Governance with the aim of maintaining a balance between leadership and monitoring while protecting shareholder interests. The «Swiss Code of Best Practice for Corporate Governance» is our benchmark. The following details 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 2018
The Group structure of the HOCHDORF Group (hereinafter referred to as HOCHDORF) is detailed on the following page. All shareholdings are listed on page 66 of the Annual Report, including their registered office, share capital and shareholding ratio. Apart from HOCHDORF Holding Ltd, which is listed, the scope of consolidation 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 be as simple as possible and also be transparent for outside parties

1.2. Significant shareholders
Significant shareholders with more than 3% of the voting rights are listed on page 64 of the Annual Report. No 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 3.14%). 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 3.04% of the capital and the voting rights (previous year 3.01%). 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 2018.

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 31.12.2018, 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 2018, 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 2018, HOCHDORF Holding Ltd had no approved capital.

Group structure

HOCHDORF Holding Ltd
6281 Hochdorf
CHF 14,347,600

Share	Company	Share	Company	Share	Company
100 %	**HOCHDORF Swiss Nutrition Ltd** 6281 Hochdorf **CHF 30,000,000**	100 %	**Bimbosan AG** 4716 Welschenrohr **CHF 350,000**	100 %	**Zifru Trockenprodukte GmbH** DE-02763 Zittau **EUR 200,000**
100 %	**Marbacher Ölmühle GmbH** DE-71672 Marbach **EUR 2,000,000**	100 %	**Schweiz. Milch-Gesellschaft AG** 6281 Hochdorf **CHF 100,000**	90 %	**HOCHDORF South Africa Ltd** SA-7741 Cape Town **ZAR 500,000**
65 %	**Snapz Foods AG** 6281 Hochdorf **CHF 100,000**	65 %	**Snapz Foods USA Inc.** US-19801 Wilmington, Delaware **USD 50,000**	60 %	**HOCHDORF Americas Ltd** UY-11000 Montevideo **UYU 3,283,200**
60 %	**Uckermärker Milch GmbH** DE-17291 Prenzlau **EUR 10,000,000**	51 %	**Pharmalys Laboratories SA** 6281 Hochdorf **CHF 100,000**	51 %	**Pharmalys Africa S.à.r.l.** TN-1053 Beb Bhar Tunis **TND 120,000**
51 %	**Pharmalys Tunisie S.à.r.l.** TN-4020 Kondar Sousse **TND 3,300,000**	26 %	**Ostmilch Handels GmbH** DE-61348 Bad Homburg **EUR 1,000,000**	26 %	**Ostmilch Frischdienst Magdeburg GmbH** DE-39179 Meitzendorf **EUR 25,000**
		26 %	**Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG** DE-09661 Schlegel **EUR 51,129.20**		

2.3. Capital changes

An overview of capital changes can be found on page 66 of the Annual Report.

2.4. Restrictions on transferability

As a matter of principle, there are no restrictions on the transfer of shares of HOCHDORF Holding Ltd. In regard to the relationship with the company, shareholders are those who are recorded in the share register. A share register is kept for registered shares, and their owners are recorded therein. The company must be notified of any changes. 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

In 2018, the Board of Directors of HOCHDORF Holding Ltd consisted of seven non-executive members. Michiel de Ruiter was a member of the Group Management until 30 April 2015 as Managing Director Baby Care. 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, the Board of Directors did not undergo any changes. Dr Anton von Weissenfluh and Prof Dr Holger Karl-Herbert Till submitted his notice of resignation, effective as of the 2019 Annual General Meeting.

Name	Born	Nationality	Member since	Elected in	Elected until
Dr Daniel Suter, Chairman	1955	Swiss	2016	2018	2019
Dr Anton von Weissenfluh, Vice Chairman	1956	Swiss	2005	2018	2019
Michiel de Ruiter	1962	Dutch	2016	2018	2019
Dr Walter Locher	1955	Swiss	2014	2018	2019
Ulrike Sailer	1967	German	2017	2018	2019
Niklaus Sauter	1962	Swiss	2014	2018	2019
Prof Dr Holger Karl-Herbert Till	1962	German	2014	2018	2019

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); fifteen years in executive management of Kambly SA, Trubschachen, five years as CEO, eleven 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 Council; member of various Board of Trustees and Board of Directors (including 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 held 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:** Vice Chairman of the Thurgau Foundation for Science and Research; Vice Chairman of the Board of Directors of SIGG Switzerland Bottles AG; board member of three other SMEs.

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 digitisation 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 each year and as often as business requires. In 2018, the Board of Directors met for seven regular meetings, four extraordinary meetings and one full-day strategy day with the Group Management. In addition, the Chairman of the Board of Directors meets with the CEO 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 or other employees for advice on specific topics. The Board of Directors is responsible for the strategic direction of the company, supervision of Group Management and financial control. The Board of Directors monitors the company objectives and identifies opportunities and risks. It also appoints the members of Group Management. The Board of Directors has quorum when the majority of its members are present. A valid resolution requires the majority of the votes cast. In the event of a tie, the Chairman of the Board of Directors has the deciding vote.

3.4. Committees of the Board of Directors

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

Audit Committee

Members: Niklaus Sauter (Chairman), Dr Daniel Suter, Dr Walter Locher. The main tasks of this committee are:

- › Checking the effectiveness of the external and internal 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 performance and remuneration of the internal auditors and their independence

- Evaluating the risk management procedure.

In 2018, the Audit Committee met five times. In addition to the standard agenda items, two special audits were conducted by the outsourced Internal Audit (PWC) as part of risk management, covering the areas of Project and Investment Management and Pharmalys.

Personnel and Remuneration Committee
Members: Dr Anton von Weissenfluh (Chairman), Niklaus Sauter, Dr Walter Locher. The main tasks of the 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 the Group Management.

The Market and Strategy Committee met two 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 HOCHDORF, the chair holds the necessary authorisations to manage. 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 HOCHDORF.

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 the 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.

HOCHDORF'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 HOCHDORF. 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 the Group Management
As at 31 December 2018, Group Management consisted of Dr Thomas Eisenring (CEO), Marcel Gavillet (CFO), Christoph Peternell (COO), Dr Peter Pfeilschifter (Managing Director Dairy Ingredients) and Frank Hoogland (Managing Director Baby Care). Until further notice, the area of Cereals & Ingredients will be managed directly by the CEO.

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. **Other activities:** Chairman of the Board of Directors of all HOCHDORF subsidiaries; Chairman of the foundation board of the HOCHDORF 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 pension fund.

Christoph Peternell

1965; German citizen. **Place of residence:** Zug, Constance (G). **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.

Dr Peter Pfeilschifter

1965; German citizen. **Place of residence:** Müswangen LU, Eberbach, Germany. **Position:** Managing Director Dairy Ingredients since April 2018. **Training/degree:** Studied economics and organisation sciences (1992 Dipl.-Kfm.) and doctorate (1996 Dr. rer. pol.) at the Bundeswehr University Munich, Germany. **Professional background:** 1995 to 1997 Senior Consultant, Coopers & Lybrand, Essen and Munich, Germany; 1997 to 2003 various management positions at ABB Schweiz AG, Baden and Zurich; 2003 to 2010 various management positions at Gelita AG, Eberbach, Germany, including as Area President Europe, Chief Marketing Officer and Chief Operating Officer; 2010 to 2011 Head of Corporate Development at Sachsenmilch Leppersdorf GmbH, Leppersdorf/Dresden, Germany; 2011 Interim Managing Director at Gyma Deutschland GmbH, Kamp-Lintfort, Germany; 2011 to 2017 General Manager and Senior Site Director at Glanbia Nutritionals Deutschland GmbH, Orsingen-Nenzingen, Germany; since 2017 Managing Director of Uckermärker Milch GmbH, Prenzlau, Germany. **Other activities:** Member of the German Senate of Economy since 2016.

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:** None.

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

a) One mandate as board member or as member of other top executive or governing bodies of public companies pursuant to Art. 727 (1) no. 1 of the Swiss Code of Obligations (CO); and additionally 727 Abs. 1 Ziff. 1 OR gelten; sowie zusätzlich
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 727 Abs. 1 Ziff. 2 OR; sowie zusätzlich
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 website: https://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 FinfraG 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 for 2018. Ernst & Young Ltd has been the auditor since 2014. Christoph Michel has been the chief auditor since 2018.

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 2018 amounted to approximately TCHF 206.

8.3. Additional fees
Additionally, expenses of TCHF 35 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 2018, the chief auditor attended two meetings of the Audit Committee.

9. Information policy

Guidelines for investor relations: HOCHDORF 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 HOCHDORF 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, HOCHDORF 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. HOCHDORF 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 HOCHDORF 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 2018, HOCHDORF Holding Ltd did not have any reportable shareholding changes.

Contact for investor relations:
HOCHDORF Holding Ltd, Investor Relations, Siedereisstrasse 9, CH-6280 Hochdorf, Switzerland. Tel. +41 41 914 65 62,
Email: ir@hochdorf.com.

The Annual General Meeting will take place on 12 April 2019. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by mail.

The next business results (half-year results 2019) will be published on Tuesday, 20 August 2019.

Remuneration

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 remuneration to be paid to the Board of Directors for the period until the next ordinary General Meeting and the remuneration 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

The remuneration 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.

The remuneration 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 remuneration for work on committees and for expenses.

The additional 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 day before allocation day. If a person departs from the Board of Directors, the shares are freely available immediately.

Remuneration of the Board of Directors	Remuneration	Social contributions	Expenses	2018	2017
Dr Daniel Suter, Chairman, AC	144,500	20,902	5,000	170,402	142,887
Dr Anton von Weissenfluh, Vice Chairman, PCC	77,000	11,074	5,000	93,074	93,076
Michiel de Ruiter, MSC	64,500	9,276	5,000	78,776	78,124
Dr Walter Locher, AC, PRC	77,500	11,145	5,000	93,645	89,595
Ulrike Sailer, MSC	62,500	8,988	5,000	76,488	49,704
Niklaus Sauter, PRC, AC	79,500	11,433	5,000	95,933	95,127
Prof Dr Holger Karl-Herbert Till, MSC	62,500	8,988	5,172	76,660	76,488
Josef Leu, Chairman, PRC; until 05.05.2017	n. a.	n. a.	n. a.	n. a.	55,193
Meike Bütikofer, MSC; until 05.05.2017	n. a.	n. a.	n. a.	n. a.	27,797
Total	**568,000**	**81,806**	**35,172**	**684,978**	**707,991**

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

The Annual General Meeting on 4 May 2018 approved a total amount of CHF 700,000 for the current term of office until the 2019 AGM. This total amount will not be exceeded. The following remuneration is envisioned for the term of office starting with the 2019 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	2019
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, PCC	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 2019 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 remuneration for each position being based on the consolidated EBIT of the Group after minority interests or – for the Managing Directors of the three business divisions – on the EBIT of the respective business area after minority interests. 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 3 times the basic salary not including expenses. Total compensation also includes retirement benefits, service benefits, and benefits in kind. The Board of Directors defines the details in the compensation regulations. There are no share or option plans or similar shareholding programmes at HOCHDORF. 30% 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 day before allocation. 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 remuneration. For the CEO, variable remuneration amounts to 2.0% of the consolidated EBIT for HOCHDORF after minority interests, whereby this must amount to at least CHF 3.5 million. The employment agreement was concluded for an indefinite period of time, with a notice period of six months.

For all other members of Group Management, the general achievement of personal targets, as well as company results, forms the basis for the decision on compensation. Variable remuneration is individual-specific. Depending on the business division and the position, it amounts to between 0.04% and 0.5% of the consolidated EBIT for HOCHDORF after minority interests, whereby this must amount to at least CHF 3.5 million, or between 0.60% and 3.5% of the EBIT generated by the individual's business division after minority stakes. The employments agreement 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)	2018	2017	2018	2017
Basic salary 1)	1,832,980	2,089,528	608,005	558,020
Variable remuneration	467,994	1,837,160	209,076	852,322
Social contributions, including employee pension	510,349	703,362	171,487	218,996
Other benefits 2)	152,500	177,200	28,500	28,000
Total	**2,963,823**	**4,807,250**	**1,017,068**	**1,657,338**
Number of members of Group Management	5	8		

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

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

The Annual General Meeting on 4 May 2018 approved a total amount of CHF 4,500,000 for the 2018 reporting year. This total amount will not be exceeded.

In 2018, the Group Management changed as follows:

- Karl Gschwend: Retired as at 31 January 2018
- Folkert Togtema: Departure as at 31 March 2018
- Werner Schweizer: Departure as at 31 March 2018
- Michel Burla Departure as at 31 December 2018
- Peter Pfeilschifter: Appointment commencing on 1 April 2018

Based on contractual agreements and the calculation of variable remuneration using the budgeted results for 2019, the total amount for 2019 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)	2019	2019
Basic salary 1)	1,573,762	608,005
Variable remuneration	806,302	414,117
Social contributions	429,030	185,571
Other benefits 2)	124,000	28,000
Total	**2,933,094**	**1,235,693**
Number of members of Group Management	**5**	

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 2019, a reserve of 10% was factored in, which amounts to about CHF 250,000 in additional variable remuneration. The total amount for 2019 to be put to a vote comes to CHF 3,200,000, 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 remuneration is approved by the Annual General Meeting an additional amount if the remuneration previously approved is insufficient for his or her remuneration. For each remuneration period, the additional amount may not exceed 30% of the most recently approved maximum amount of fixed remuneration for Group Management.

Change-of-control clauses

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

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

The personnel changes made in the reporting period are listed in advance. The remuneration owed to former members of Group Management in the reporting period has been accrued accordingly. There were no changes to the Board of Directors in 2018.

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		2018	2017
Dr Daniel Suter	Chairman, AC	895	296
Dr Anton von Weissenfluh	Vice-Chairman, PCC	1,809	1,355
Michiel de Ruiter	MSC	225	46
Dr Walter Locher	AC, PCC	1,713	1,553
Ulrike Sailer	MSC	233	104
Niklaus Sauter	PCC, AC	620	456
Prof Dr Holger Karl-Herbert Till	MSC	339	210
Total		**5,834**	**4,020**

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

Group Management		2018	2017
Dr Thomas Eisenring	CEO	2,309	1,243
Marcel Gavillet	CFO	1,802	1,301
Christoph Peternell	COO	170	71
Frank Hoogland	Managing Director Baby Care	290	71
Dr Peter Pfeilschifter	Managing Director Dairy Ingredients as of 1.04.2018	63	n. a.
Dr Karl Gschwend	Managing Director Strategic Projects until 31.01.2018	n. a.	71
Werner Schweizer	Managing Director Dairy Ingredients until 31.03.2018	n. a.	138
Michel Burla	Managing Director Cereals & Ingredients until 31.12.2018	n. a.	36
Folkert Togtema	CSO until 31.03.2018	n. a.	192
Total		**4,634**	**3,123**

Additional fees and remuneration

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

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

Loans are fundamentally never granted to members of the Board of Directors, the CEO, Group Management, or employees of HOCHDORF. During the reporting period, no collateral (loan guarantees, other guarantees, etc.) was granted. 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 parties

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

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 8 March 2019

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 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 52 to 56 of the remuneration report.

Board of Directors’ responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2018 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Christoph Michel Licensed audit expert (Auditor in charge)	Roman Ottiger Licensed audit expert

Annual financial statement

Consolidated balance sheet as at 31 December

		2018 CHF	in %	2017 CHF	In %
Assets					
Cash and cash equivalents	1)*	30,784,059	5.4%	63,860,406	11.0 %
Accounts receivables	2)*	70,453,883	12.2%	81,482,930	14.0%
Accounts receivables from related parties	2)*	48,686,091	8.5%	44,100,198	7.6%
Accounts receivables from associated parties	2)*	1,711,357	0.3%	1,556,325	0.3%
Other receivables from related parties	2)*	77,988	0.0%	155	0.0%
Other short-term receivables	2)*	6,599,803	1.1%	10,680,940	1.8%
Inventories	3)*	67,372,914	11.7%	55,444,588	9.5%
Accrued income	4)*	27,831,064	4.8%	21,554,817	3.7%
Current assets		**253,517,159**	**44.1%**	**278,680,359**	**47.9%**
Property and plant		112,656,883	19.6%	90,467,642	15.5%
Other fixed assets		189,188,522	32.9%	194,526,650	33.4%
Total fixed assets	5)*	**301,845,404**	**52.5%**	**284,994,292**	**48.9%**
Shareholdings	6)*	2,407,793	0.4%	2,639,109	0.5%
Financial assets	7)*	12,467,515	2.2%	10,192,369	1.8%
Intangible assets	8)*	4,992,636	0.9%	5,763,628	1.0%
Non-current assets		**321,713,349**	**55.9%**	**303,589,399**	**52.1%**
Total assets		**575,230,508**	**100.0%**	**582,269,757**	**100.0%**
Liabilities					
Trade payables	9)*	59,349,483	10.3%	74,830,462	12.9%
Short-term financial liabilities	10)*	14,379,104	2.5%	11,649,849	2.0%
Other short-term liabilities to related parties	11)*	9,536,514	1.7%	96,829,227	16.6%
Other short-term liabilities	11)*	15,006,630	2.6%	17,037,222	2.9%
Accrued liabilities and deferred income	12)*	12,976,211	2.3%	15,496,439	2.7%
Current liabilities		**111,247,942**	**19.3%**	**215,843,200**	**37.1%**
Long-term financial liabilities	13)*	157,711,436	27.4%	39,722,116	6.8%
Long-term financial liabilities to related parties	13)*	6,860,000	1.2%	0	0.0%
Provisions	14)*	18,564,274	3.2%	17,422,404	3.0%
Non-current liabilities		**183,135,710**	**31.8%**	**57,144,520**	**9.8%**
Share capital		14,347,600	2.5%	14,347,600	2.5%
Own shares		–7,350,646	–1.3%	–8,570,839	–1.5%
Capital reserves		85,433,251	14.9%	90,010,753	15.5%
Mandatory convertible bond		198,935,822	34.6%	198,935,822	34.2%
Hybrid capital		107,588,513	18.7%	107,588,513	18.5%
Profit reserves		–148,468,206	–25.8%	–147,992,298	–25.4%
Minority interests		27,515,816	4.8%	29,068,201	5.0%
Earnings current year		2,844,707	0.5%	25,894,285	4.4%
Shareholders' equity	15)*	**280,846,857**	**48.8%**	**309,282,038**	**53.1%**
Total liabilities and equity		**575,230,508**	**100.0%**	**582,269,757**	**100.0%**

*Explanations in the notes

Consolidated income statement

		2018 CHF	In %	2017 CHF	in %
		01.01.18 – 31.12.18		01.01.17 – 31.12.17	
Net sales revenue	16)*	**561,030,694**	**97.9%**	**600,526,789**	**99.5%**
Other operating income	17)*	2,699,855	0.5%	418,866	0.1%
Change in inventories of semi-finished and finished products		9,059,012	1.6%	2,793,543	0.5%
Production revenue		**572,789,560**	**100.0%**	**603,739,199**	**100.0%**
Cost of materials and goods		–400,969,787	–70.0%	–431,638,114	–71.5%
Gross operating profit		**171,819,773**	**30.0%**	**172,101,085**	**28.5%**
Personnel expenses	18)*	–52,980,451	–9.2%	–50,999,655	–8.4%
Other operating expenses	19)*	–82,953,152	–14.5%	–65,382,317	–10.8%
Total operating expenses		**–135,933,602**	**–23.7%**	**–116,381,972**	**–19.3%**
EBITDA		**35,886,170**	**6.3%**	**55,719,112**	**9.2%**
Depreciation of fixed assets		–13,030,333	–2.3%	–12,335,665	–2.0%
Amortisation of intangible assets		–1,357,063	–0.2 %	–767,328	–0.1%
Impairment of investments		–2,849,490	–0.5%	0	0.0%
EBIT		**18,649,284**	**3.3%**	**42,616,120**	**7.1%**
Income from associates and joint ventures	20)*	413,358	0.1%	528,491	0.1%
Financial result	20)*	–8,551,563	–1.5%	2,755,750	0.5%
Earnings before taxes		**10,511,079**	**1.8%**	**45,900,360**	**7.6%**
Non-operating result	21)*	–8,746	0.0%	–34,209	0.0%
Extraordinary result	22)*	–97,426	0.0%	–10,518	0.0%
Earnings before taxes		**10,404,907**	**1.8%**	**45,855,633**	**7.6%**
Income taxes	23)*	–1,748,788	–0.3%	–5,009,856	–0.8%
Net profit		**8,656,119**	**1.5%**	**40,845,777**	**6.8%**
Attributable to:					
Parent company shareholders		2,844,707	0.5%	25,894,285	4.3%
Minority interests		5,811,412	1.0%	14,951,493	2.5%
Net profit		**8,656,119**	**1.5%**	**40,845,777**	**6.8%**
Earnings per share (basic)	24)*	**2.02**		**18.43**	
Earnings per share (diluted)	24)*	**1.39**		**12.22**	

*Explanations in the notes

Consolidated cash flow statement

	2018 CHF	2017 CHF
	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Net profit	8,656,123	40,845,777
Depreciation of fixed assets and amortisation of intangible assets	14,387,395	13,102,992
Impairment of investments	2,849,490	0
Currency effect on the Lithuania sale	3,017,328	0
Net interest expense	2,107,765	1,318,488
Other non-cash adjustments	–2,273,428	–1,020,866
Change in short-term provisions	0	-5,056
Change in long-term provisions	1,345,966	1,488,652
Accounting losses (profits) from sales of fixed assets	102,914	46,740
Income from associates and joint ventures	231,316	258,559
Cash flow from operating activities before changes in working capital	**30,424,870**	**56,035,284**
As % of net sales revenue	5.42%	9.33%
Change in trade receivables	10,573,477	–21,892,814
Change in trade receivables from related parties	–4,587,979	–35,670,382
Change in trade receivables from associated parties	–212,993	1,001,590
Change in other short-term receivables	4,363,638	–4,876,801
Change in other short-term receivables from related parties	–77,834	40,758
Change in inventories	–10,619,709	–3,895,466
Change in prepayments	–6,148,931	–6,374,108
Change in liabilities from deliveries and services	–15,332,847	14,924,137
Change in other short-term liabilities	–2,599,168	4,048,085
Change in other short-term liabilities to related parties	–84,282,752	–8,037,378
Change in deferred income	–2,778,505	10,716,136
Change in net current assets	**–111,703,601**	**–50,016,242**
Cash flow from operating activities	**–81,278,732**	**6,019,042**
As % of net sales revenue	–14.49%	1.00%
Investments in fixed assets	–34,923,708	–84,787,752
Divestments of fixed assets	31,287	108,457
Investments in intangible assets	–592,098	–4,221,053
Divestments of intangible assets	0	87,409
Investments in/divestments of long-term financial assets	–106,538	145,916
Net cash flow from the purchase (–) / sale (+) of shareholdings	–31,661,208	–1,431,333
Interest and dividends received	927	835
Cash flow from investing activities	**–67,251,337**	**–90,097,521**
Free cash flow	**–148,530,069**	**–84,078,479**
As % of net sales revenue	–26.47%	–14.00%

Continuation of consolidated cash flow statement

	2018 CHF	2017 CHF
	01.01.2018 – 31.12.2018	01.01.2017 – 31.12.2017
Change in short-term financial liabilities	10,204,052	–5,981,590
Change in long-term financial liabilities	118,357,205	–110,848,899
Additions/disposals of minority interests in capital and profit	–6,484	–11,498
Mandatory convertible bond	0	87,485,000
Hybrid bond	0	124,173,032
Capital increase	–6,749	–1,427,138
Change in capital of subsidiaries	–15,304	5,408
Sale (purchase) of own shares net cash flow	2,381,731	–3,263,073
Interest paid	–9,554,865	–4,870,133
Dividend payments	–5,598,980	–5,336,891
Cash flow from financing activities	**115,760,605**	**79,924,218**
Currency translation	–306,882	306,768
Net change in cash and cash equivalents	**–33,076,346**	**–3,847,492**
Cash and cash equivalents at 1 January	63,860,406	67,707,898
Cash and cash equivalents at 31 December	**30,784,059**	**63,860,406**

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 including minority interests
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2016	**14,348**	**–5,146**	**96,731**	**0**	**–68,993**	**–4,723**	**32,216**	**13,588**	**45,805**
Change in the scope of consolidation								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
Capital increase			–1,430		3		–1,427	3	–1,424
Mandatory convertible bond			198,936				198,936		198,936
Hybrid bonds				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	**14,348 1)**	**–8,571**	**288,947**	**107,589**	**–119,064 2)**	**–3,034**	**280,214**	**29,068**	**309,282**
Change in the scope of consolidation					–3,016	3,016	0	0	0
Goodwill/badwill from acquisition of shares of subsidiary					–25,775		–25,775	0	–25,775
Allocation of capital contributions to free reserves			–5,739		5,739		0		0
Capital increase			0		–7		–7	–6	–13
Acquisition of own shares		–1,135					–1,135		–1,135
Sale of own shares		2,356	1,162				3,517		3,517
Currency translation differences					0	–728	–728	–497	–1,226
Dividends					–5,599		–5,599	–6,860	–12,459
Net profit from current period					2,845		2,845	5,811	8,656
Equity as at 31.12.2018	**14,348 1)**	**–7,351**	**284,369**	**107,589**	**–144,877 2)**	**–747**	**253,331**	**27,516**	**280'847**

1) 1,434,760 registered shares of a nominal value of CHF 10.00 each; each share corresponds to one vote; the maximum entry limit in the share register is 15% of the votes.
2) Thereof non-distributable legal reserves TCHF 10,172 (previous year: TCHF 10,172).

Shareholders >3%	Share	Prior year
ZMP Invest AG, Lucerne	14.51%	14.51%
Family Weiss and Innovent Holding AG, Wollerau	5.35%	5.35%
Stichting General Holdings, Amsterdam	4.23%	4.08%
Taaleri Plc., Helsinki	3.14%	3.14%
Gruppe Maurer, Hunzenschwil	3.04%	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, point 15.

Notes to the 2018 consolidated financial statements of the HOCHDORF Group

Principles of consolidation

General information
The HOCHDORF Group prepares its consolidated financial statements 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 statements reflect the actual status of the Group's asset, financial and revenue position. The consolidated annual financial statements are based on the principle of historical purchase costs or production cost or current values and are based on the annual financial statements for the Group companies as at 31 December 2018, prepared according to uniform principles. The consolidated financial statements are prepared in Swiss francs (CHF).

Consolidation principles

Scope of consolidation/consolidation method
The consolidated annual financial statements of the HOCHDORF Group comprise the annual financial statements of the HOCHDORF Holding Ltd parent company as well as all subsidiaries in which there is a capital- and vote-relevant majority or where control over the financial and business policy is exercised through contractual agreement. Shareholdings with 20% to 50% of the voting rights are accounted for using the equity method. Financial statements or reconciliations with Swiss GAAP FER are used to determine the proportionate equity. 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 inter-company 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. Companies sold during the year are excluded from the consolidated financial statements from the date of sale. If shares in fully consolidated companies or companies accounted for using the equity method are sold, the difference between the disposal proceeds and the proportionate carrying amount, including goodwill/badwill, is recognized as a gain or loss on the income statement.

The consolidated cash flow statement is generated on the basis of the consolidated balance sheet and income statement.

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

The accumulated translation differences from the translation of the annual financial statements and intercompany loans recorded in equity for a foreign company are derecognised when the company is sold and recognised in the income statement as part of the gain or loss on disposal.

	Income statement average exchange rates		Balance sheet; end-of-year exchange rates	
	2018	2017	31.12.2018	31.12.2017
EUR 1	1.1522	1.1119	1.1269	1.1702
USD 1	0.9768	0.9832	0.9858	0.9745
TND 1	0.3699	0.4082	0.3294	0.3902
UYU 1	0.0319	0.0343	0.0304	0.0339
ZAR 1	0.0740	0.0738	0.0685	0.0787

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 thousands 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
HOCHDORF Holding Ltd	Hochdorf CH	Holding	CHF	14,348	100%	100%
HOCHDORF Swiss Nutrition Ltd	Hochdorf CH	Production	CHF	30,000	100%	100%
HOCHDORF Baltic Milk UAB 1)	Medeikiai LT	Production and trade	EUR	n. a.	n. a.	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.	Sousse TU	Production	TND	3,300	51%	51%
Snapz Foods AG	Hochdorf CH	Trade	CHF	100	65%	65%
Zifru Trockenprodukte GmbH	Zittau DE	Production	EUR	200	100%	100%
Bimbosan AG 2)	Welschenrohr CH	Production and trade	CHF	350	100%	n. a.
Snapz Foods USA Inc. 3)	Delaware USA	Trade	USD	50	65%	n. a.

1) Sale as at 19.06.2018
2) Acquisition as at 30.04.2018
3) Foundation as at 29.05.2018 as 100% subsidiary of Snapz Foods AG

Associated companies	Location	Function	Currency	Capital in thousands 31.12.2018	Capital share 31.12.2018	Capital share 31.12.2017
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 on postal and bank accounts, as well as short-term time deposits with a remaining term of less than three months. 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". General value adjustments are made for items which have not already been subject to specific value adjustments. The general value adjustment is based on the assumption that the default risk rises as the receivable becomes increasingly overdue. For this purpose, the following value adjustment approaches are applied, which can be deviated from in justified cases:

Receivables	Specific value adjustment
Overdue for 1–30 days	2% of the receivable amount
Overdue for 31–90 days	5% of the receivable amount
Overdue for 91–180 days	10% of the receivable amount
Overdue for more than 180 days	20% of the receivable amount
Ongoing collections	100% of the receivable amount

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 rates used in determining value adjustments are as follows for raw, auxiliary and operating materials:

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.

For 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) are 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 progress are capitalised as current investment projects and are not depreciated. Interests on assets under construction are not capitalised. Fixed assets are written down over the following useful lives.

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 purchase 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 of 2.5%). 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 external capital
Liabilities are measured at the nominal amount. Short-term external capital includes liabilities with due dates of less than 12 months and short-term accrual items. Long-term liabilities include financing with a runtime of more than a year.

Provisions
The calculation of the provisions requires assumptions on the probability, amount and time of an outflow of cash. If an outflow of cash is likely and a reliable estimate is possible, a provision is reported.

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

Derivative financial instruments
Derivative financial instruments are used to hedge risks in currencies, interest rates and commodities. The booking of derivative financial instruments depends on the hedged underlying transaction. Derivatives to hedge the changes in the value of an already reported underlying transaction are reported in accordance with the same valuation principles that are used for the hedged underlying transaction. Instruments for hedging future cash flows are not reported on the balance sheet, but rather disclosed in the Notes to the financial statements until the recognition of the future cash flow. When the future transaction or sale of the derivative occurs, the current value of the derivative financial instrument is reported and simultaneously recognised with the recognition of the hedged cash flow on the income statement. The derivative financial instruments that were unsettled on the balance sheet date are disclosed in the notes to the consolidated financial statements under "Further notes – Unsettled 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 receivables resulting from such is adequately secured. Turnover from the provision of services is reported in the accounting period in which the service was provided. The consideration of reductions in revenue for customers takes place in the same period as the turnover that caused these reductions in revenue in accordance with the terms and conditions of the order. The HOCHDORF Group does not have any brokerage transactions or business events with multiple, separate components.

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

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

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

Notes to the consolidated financial statements

The acquisition of Bimbosan AG as at 30 April 2018, the sale of HOCHDORF Baltic Milk UAB as at 19 June 2018 and the formation of Snapz Foods USA Inc. lead to corresponding changes in the individual balance sheet items. The values are therefore only somewhat 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	2018	2017
Cash	15	19
Post account	725	9,129
Bank account	29,611	54,282
Short-term investments	433	430
Total	**30,784**	**63,860**

2. Accounts receivable

TCHF	2018	2017
Accounts receivables from third parties	70,454	81,862
Minus provision for doubtful accounts	0	–378
Short-term receivables from related parties	48,686	44,100
Accounts receivables from associated companies	1,711	1,556
Other receivables	6,600	10,681
Other receivables from related parties	78	0
Total	**127,529**	**137,821**

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

3. Inventories

TCHF	2018	2017
Raw materials, packaging materials, operating materials	14,439	12,375
Finished and semi-finished products, trade goods	54,435	44,343
Heating oil	458	434
Value adjustments for inventories	–1,959	–1,707
Total	**67,373**	**55,445**

4. Accrued income

TCHF	2018	2017
As at 31 December	**27,831**	**21,555**

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 01.01.2017	**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 4)	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 4)	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**
Purchase value							
As at 01.01.2018	**173,552**	**73,385**	**158,908**	**23,199**	**2,732**	**83,285**	**515,061**
Change in scope of consolidation 5)	5,267	–3,846	–3,447	–150	–343	0	–2,519
Additions	0	165	426	8	44	34,289	34,932
Disposals	0	–17	–72	–28	–525	0	–642
Reclassification 3)	25,319	23,923	52,323	2,369	224	–104,158	0
Currency translation differences	-2,162	–460	–1,579	–50	–26	–80	–4,357
As at 31.12.2018	**201,976**	**93,150**	**206,559**	**25,348**	**2,106**	**13,336**	**542,475**
Accumulated depreciation							
As at 01.01.2018	**83,084**	**35,043**	**95,300**	**14,782**	**1,858**	**0**	**230,067**
Change in scope of consolidation 5)	4,188	–1,637	–1,899	–98	–297	0	257
Disposals	0	0	–64	–28	–415	0	–507
Depreciation	2,923	3,166	4,962	1,793	193	0	13,037
Currency translation differences	–876	–312	–992	–25	–20	0	–2,225
As at 31.12.2018	**89,319**	**36,260**	**97,307**	**16,424**	**1,319**	**0**	**240,629**
Net accounting value 31.12.2018	**112,657**	**56,890**	**109,252**	**8,924**	**787**	**13,336**	**301,846**

1) The Group holds available, undeveloped parcels of land.

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 the context of the purchase of Zifru Trockenprodukte GmbH.

5) In the context of the purchase of Bimbosan AG and the sale of HOCHDORF Baltic Milk UAB.

Of which assets subject to financial leasing

TCHF	Total	Open instalments
Net accounting value 01.01.2018	**8,454**	**5,094**
Purchase value		
As at 01.01.2018	**9,956**	**5,094**
Additions	0	0
Disposals – of instalments	0	–1,952
Currency translation difference	–29	–6
As at 31.12.2018	**9,927**	**3,136**
Accumulated depreciation		
As at 01.01.2018	**1,502**	**0**
Depreciation	569	0
Currency translation difference	–14	0
As at 31.12.2018	**2,057**	**0**
Net accounting value as at 31.12.2018	**7,870**	**3,136**

6. Associated companies

Associated companies	Location	Function	Currency	Capital in thousands 31.12.2018	Shareholdings 31.12.2018 CHF thousands	Shareholdings 31.12.2017 CHF thousands
Ostmilch Handels GmbH	Bad Homburg DE	Trade	EUR	1,000	2,292	2,560
Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG	Schlegel DE	Logistics	EUR	51	0	0
Ostmilch Frischdienst Magdeburg GmbH	Meitzendorf DE	Trade	EUR	25	116	79
					2,408	2,639

7. Financial assets

TCHF	2018	2017
Securities	30	30
Deferred tax assets	4,178	2,085
Assets from employer contribution reserves	8,259	8,077
Total	**12,467**	**10,192**

The deferred tax assets result from existing carried forward losses in the tax balance sheet. The increase comes primarily from the negative results of various subsidiaries.

Taxable losses carried forward after expiration

TCHF	2018	2017
2023 and later	20,188	7,999
Total	**20,188**	**7,999**

Pension plans

CHF thousands Employer contribution reserve	Nominal value 31.12.2018	Renounced use 31.12.2018	Balance sheet 31.12.2018	Creation per 2018	balance sheet 31.12.2017	Result of the committee of works and staff councils in personnel expenses 2018	 2017
HGR pension fund	8,259	0	8,259	182	8,077	0	0

The posting of interest from employer contribution reserves through pension plans appears as a credit in the financial revenues. Interest of 2.25% (prev. year: 2.25%) was calculated on the employer contribution reserves in 2018.

TCHF Economic benefit/economic liability and pension expenditure	Credit/debit balance 31.12.2018	Economic share of the organisation 31.12.2018	 31.12.2017	Change from the previous year	Contributions accrued for the period	Pension expenditure in personnel expenses 2018	 2017
HGR pension fund	9,018	0	0	146	2,288	2,288	2,142

8. Intangible assets [1)]

TCHF	Software	Brands	Others intangible assets	Current projects	Total
Net accounting value as at 01.01.2017	**1,612**		**684**	**88**	**2,384**
Purchase value					
As at 01.01.2017	**2,791**	**0**	**0**	**88**	**3,579**
Additions	3	3,520	700	614	4,137
Disposals	0	0	0	0	0
Reclassifications	517	0	0	–517	0
Currency translation difference	59	0	0	0	–59
As at 31.12.2017	**3,370**	**3,520**	**700**	**185**	**7,775**
Accumulated depreciation					
As at 01.01.2017	**1,179**	**0**	**16**	**0**	**1,195**
Disposals	4	0	0	0	4
Depreciation	510	117	140	0	767
Currency translation differences	45	0	0	0	45
As at 31.12.2017	**1,738**	**117**	**156**	**0**	**2,011**
Net accounting value as at 31.12.2017	**1,632**	**3,403**	**544**	**185**	**5,764**
Purchase value					
As at 01.01.2018	**3,370**	**3,520**	**700**	**185**	**7,775**
Additions	113	0	0	479	592
Disposals	–3	0	0	0	–3
Reclassifications	445	0	0	–445	0
Currency translation difference	–29	0	0	0	–29
As at 31.12.2018	**3,896**	**3,520**	**700**	**219**	**8,335**
Accumulated depreciation					
As at 01.01.2018	**1,738**	**117**	**156**	**0**	**2,011**
Disposals	–3	0	0	0	–3
Depreciation	513	704	140	0	1,357
Currency translation difference	–22	0	0	0	–22
As at 31.12.2018	**2,226**	**821**	**296**	**0**	**3,343**
Net accounting value as at 31.12.2018	**1,670**	**2,699**	**404**	**219**	**4,992**

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	2018	2017
To third parties	54,413	72,506
To related parties	4,484	2,170
To associated companies	452	155
Total	**59,349**	**74,831**

10. Short-term financial liabilities

TCHF	2018	2017
Other financial liabilities 1)	12,479	9,571
Leasing liabilities	1,897	1,981
Bank loans	3	98
Total	**14,379**	**11,650**

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

11. Other short-term liabilities

TCHF	2018	2017
To related parties	9,537	96,829
Other short-term liabilities	11,537	6,229
Employee overtime	345	311
Employee holiday credits	676	658
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc.)	1,211	4,035
Government bodies (taxes, source taxes, value added taxes)	1,238	5,804
Total	**24,544**	**113,866**

The other short-term liabilities include the so-called "Schoggigesetz" (chocolate 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	2018	2017
As at 31 December	**12,976**	**15,496**

The deferred income essentially includes accruals in the context of reimbursements and commissions ("Schoggigesetz") as well as invoices not yet received for goods receipts and other supplier services (power, water, transport).

13. Long-term financial liabilities

TCHF	2018	2017
Mortgages, loans 1)	417	452
Leasing liabilities	1,152	3,117
Bank loans	142,311	11,817
To related parties	6,860	0
Other financial liabilities 2)	13,831	24,336
Total	**164,571**	**39,722**

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

2) Including discounted interest amounts from the convertible bond and the hybrid bond for 2020 and subsequent years; see additional explanatory remarks in point 15.

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

Position	Book value TCHF	Due date	Interest rate
Syndicated loan	131,000	8.11.2023	from 0.70% to 2.60%
Bank loans – short term	3	2019	from 4.80% to 6.80%
Bank loans – long term	11,311	>2021	from 1.50% to 7.11%
Geiger loan	417	>2021	from 1.26% to 2.68%
Leasing – short term	1,897	2019	from 1.85% to 5.34%
Leasing – long term	1,152	2020	from 1.85% to 5.34%
Other short-term financial liabilities	12,479	2019	from 0.00% to 7.97%
To related parties – short term	9,537	2019	No interest
To related parties – long term	6,860	>2020	No interest
Other long-term liabilities	13,831	2020/2023	No interest
Total	**188,487**		

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

14. Provisions

TCHF Development of provisions	Damages claims	Various provisions	Deferred tax provisions	Total
As at 31.12.2016	**80**	**0**	**13,934**	**14,014**
Provisions made (with effect on net income)	0	5	3,223	3,228
Provision used	-51	0	0	-51
Provision released	-29	0	-182	-211
Currency translation differences	0	0	442	442
As at 31.12.2017	**0**	**5**	**17,417**	**17,422**
Change in scope of consolidation 1)	0	0	32	32
Provisions made	286	0	1,834	2,120
Provisions used	0	0	0	0
Provision released	–286	0	–484	–770
Currency translation differences	0	0	–240	–240
As at 31.12.2018	**0**	**5**	**18,559**	**18,564**

1) In the context of the purchase of Bimbosan AG and the sale of HOCHDORF Baltic Milk UAB.

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 December 2018. It is divided into 1,434,760 registered shares at a nominal value of CHF 10 each (2017: 1,434,760 registered shares).

The mandatory convertible bond issued in 2017 with a nominal value of CHF 218.49 million was not converted during the financial year. The nominal amount is therefore unchanged; duration from 30.03.2017 – 30.03.2020; interest rate of 3.5% for the entire term; conversion price CHF 304.67; securities number 35,275,641; ISIN CH0352756412; Conversion period: 03.01.2018 to and with 13.03.2020.

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 March 2017 at an interest rate of 1%. This interest rate corresponds to the syndicated loan's margin at the time. Of the whole bond amount of CHF 218.49 million, CHF 133.285 million are effectively interest-bearing from 30 March 2017 until 30 March 2018. From 1 April 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 costs.

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 hybrid 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 an external capital component. The external capital 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 syndicated loan's margin at the time. 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 March 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 30.3.2020. 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 total cost of expenditure method (production income statement). The income statement items include the values of Bimbosan AG for the first time in 2018 (from 1 May 2018). 2018 includes the values of HOCHDORF Baltic Milk UAB until 31 May 2018, as it was sold at the end of May 2018. As of 1 June 2018, the values of the newly founded Snapz Foods USA Inc. are included. Therefore, a direct comparison with the prior year is only of limited value.

16. Net revenue from deliveries and services

By product groups

TCHF	2018		2017	
Milk products/cream	201,750	35.96%	234,459	39.04%
Milk powder	155,091	27.64%	165,057	27.48%
Infant formula	178,816	31.87%	166,094	27.66%
Specialities/wheat germ	20,572	3.67%	17,227	2.87%
Bakery/confectionary goods	4,707	0.84%	4,664	0.78%
Other products/services	95	0.02%	13,026	2.17%
Total	**561,031**	**100.00%**	**600,527**	**100.00%**

By region

TCHF	2018		2017	
Switzerland/Liechtenstein	196,329	34.99%	200,319	33.36%
Europe	206,820	36.87%	237,106	39.48%
Asia	6,217	1.11%	22,640	3.78%
Middle East/Africa	140,330	25.01%	132,190	22.01%
USA/Canada	335	0.06%	239	0.04%
Americas (others)	10,964	1.96%	4,111	0.68%
Other [1)]	36	0.00%	3,922	0.65%
Total	**561,031**	**100.00%**	**600,527**	**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	2018		2017	
Dairy Ingredients	354,419	63.17%	405,131	67.46%
Baby Care	175,960	31.37%	168,751	28.10%
Cereals & Ingredients	30,652	5.46%	26,645	4.44%
Total	**561,031**	**100.00%**	**600,527**	**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 supplier side (milk producers) is organized within several milk producer organisations. On the processing side, the market is dominated by the cheeseries and four large dairies. On the customer side, the chocolate industry segment is predominant, likewise with just a few large producers. In the area of infant formula (based on milk), only one other firm produces infant formula for the Swiss and international market, apart from the HOCHDORF Group.

17. Other operating income

TCHF	2018	2017
Various other operating income	2,700	419
Total	**2,700**	**419**

Various other operating income includes the renting of office and production space as well as private shares from employees for the use of vehicles as larger positions. In 2018, there were also insurance payments of CHF 2.25 million for the fires at the Hochdorf and Sulgen plants. The corresponding offsetting items are recorded under cost of materials and operating costs.

18. Personnel expenses

TCHF	2018	2017
Wages	–42,517	–41,201
Social contributions	–6,794	–6,643
Incidental wage costs incl. temporary staff	–3,670	–3,156
Total	**–52,981**	**–51,000**

19. Other operating expenses

TCHF	2018	2017
Facilities expenditure (incl. warehouse rents)	–5,858	–4,934
Maintenance, repairs	–10,021	–8,503
Vehicle and transport costs	–10,803	–10,035
Insurance, fees, duties	–1,954	–1,404
Energy and disposal expenditure	–16,890	–15,723
Administration and IT expenditure	–5,974	–4,728
Advertising costs incl. commissions to customers	–24,842	–14,409
Various other operating costs	–6,611	–5,646
Total	**–82,953**	**–65,382**

20. Financial result

TCHF	2018	2017
Interests from cash and cash equivalents	1	1
Revenues from holdings and financial assets incl. associated parties	0	613
Value adjustment from financial assets	0	19
Other financial revenue	0	0
Exchange rate gains	10,308	7,262
Total financial revenue	**10,309**	**7,895**
Interest costs	–2,109	–1,319
Expenses from shareholdings and financial assets incl. associated parties	–2,297	0
Value adjustment from financial assets	–4	0
Deposit fees, fees	–423	–18
Exchange rate losses	–13,614	–3,274
Total financial costs	**–18,447**	**–4,611**
Total	**–8,138**	**3,284**

21. Non-operating income

TCHF	2018	2017
Revenue from external properties	–9	–34
Total	**–9**	**–34**

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

22. Extraordinary income

TCHF	2018	2017
Profit from the disposal of operating fixed assets	–103	–48
Extraordinary result	6	38
Total	**–97**	**–10**

23. Taxes

TCHF	2018	2017
Current income taxes		
Taxes on operating result	–3,086	–3,793
Deferred income taxes		
Net change in deferred tax assets and liabilities	1,337	–1,217
Total	**–1,749**	**–5,010**

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. 25% was applied to the subsidiary in Welschenrohr; 25% was also applied to the subsidiaries in Germany and Uruguay, and 20% to the subsidiary in South Africa.

The weighted average tax rate relates to the Group's earnings before taxes (EBT) and amounts to 16.64% (previous year: 10.73%). In the previous year, the subsequent approval of carry-over losses at the foreign subsidiaries reduced the tax rate. In the year under review, the write-down of CHF 2.85 million on investments at the Group level led to lower earnings before taxes and thus to a higher average tax rate. Without this additional write-down, the weighted, average tax rate would be 13.09%.

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

	2018	2017
Weighted average shares outstanding	1,404,931	1,404,639
Net profit after minority interests	2,844,707	25,894,285
Earnings per share in CHF, basic	**2.02**	**18.43**

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

	2018	2017
Weighted average shares outstanding, basic	1,404,931	1,404,639
Dilution effect of convertible bond 1)	717,136	717,136
Weighted average shares outstanding, diluted	2,121,067	2,121,775
Net profit after minority interests	2,844,707	25,894,285
Interest on convertible bond 2)	118,701	26,045
12% tax effect (interest on convertible bond*0.12/1.12)	–12,718	–2,791
Net profit after minority interests, diluted	2,950,690	25,917,539
Earnings per share in CHF, diluted	**1.39**	**12.22**

1) The dilution is calculated from the mandatory convertible 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 3 January 2018 to 13 March 2020. As of 31 December 2018, the entire mandatory bond was therefore 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 point 15.

25. Own shares

HOCHDORF Group pension fund

	2018 Number	2017 Number
Registered shares of HOCHDORF Holding Ltd	18,000	18,000
Total	**18,000**	**18,000**

Transactions with own shares

	2018	2017
Balance as at 1 January in units	**36,133**	**24,372**
At the average price per share of CHF	237.20	211.14
Purchases in units	8,110	13,004
At the average price per share of CHF	140.00	279.91
Sales/allocations in units	–13,291	–1,243
At an average price per share of CHF	264.62	303.22
Balance as at 31 December in units	**30,952**	**36,133**
At an average price per share of CHF	237.49	237.20

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, 30% 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 day before allocation.

Allocation	Allocation date	Allocated securities	Volume-weighted average exchange rate (CHF)	Recognised expenses (CHF)
Variable remuneration paid to Group Management	13.03.2018	1,118	300.99	336,506.08
Fee for Board of Directors	07.12.2018	1,173	96.43	113,116.76

Further notes

Unsettled derivative financial instruments

Exchange rate instruments	Value changes	2018 Asset values	2018 Liability val-ues	Purpose	Value change	2017 Asset values	2017 Liability val-ues	Purpose
Interest rate swaps	0	0	0	Hedging	0	0	0	Hedging
Forward exchange contracts	229	0	0	Hedging	–229	0	229	Hedging
Total assets and liability values	**229**	**0**	**0**		**-229**	**0**	**229**	

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.

Leasing debts

TCHF	2018	2017
Unrecognised leasing debts	54	74
Total	**54**	**74**

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	2018	2017
HOCHDORF Group pension fund	368	360
Total	**368**	**360**

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

For the purpose of the strategic further development of the Baby Care Division, HOCHDORF Holding Ltd acquired 100% of the shares in Bimbosan AG, headquartered in Welschenrohr (Switzerland), on 30 April 2018, thus gaining control over the company. The company is specialized in the distribution of food, especially baby food.

The acquired net assets are as follows:

TEUR	Total
Cash and cash equivalents	681
Accounts receivables	1,106
Other short-term receivables	515
Inventories	2,428
Accrued income	152
Property and plant	2,733
Other fixed assets	406
Trade payables	–1,536
Other short-term liabilities	–755
Accrued liabilities and deferred income	–339
Long-term liabilities	–1,000
Provisions	–395
Identified net assets	**3,996**

In accordance with the Group guidelines, goodwill of CHF 28.8 million was offset against equity. The purchase price was largely paid in cash. About 10% of the purchase price was paid with shares of HOCHDORF Holding Ltd.

Divestment

On 31 May 2018, HOCHDORF Holding Ltd sold 100% of the shares in HOCHDORF Baltic Milk UAB, headquartered in Medeikiai, Lithuania, in connection with the streamlining of the Dairy Ingredients Division, and thus relinquished control.

The composition of the net assets sold was as follows:

TCHF	Total
Cash and cash equivalents	1,449
Accounts receivables	1,224
Other short-term receivables	271
Inventories	500
Accrued income	19
Property and plant	1,654
Other fixed assets	4,261
Trade payables	–1,086
Other short-term liabilities	–181
Accrued liabilities and deferred income	–3
Provisions	–363
Identified net assets	**7,745**

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

In 2017, the company generated net sales of CHF 18.8 million, with EBIT of CHF –1.7 million. In the half-year report as at 30 June 2017, net sales of CHF 9.4 million were generated with an EBIT of CHF –0.4 million. As at 31 May 2018, the accumulated net sales amounted to CHF 8.0 million, with an EBIT of CHF –0.8 million and a net loss of CHF –1.2 million.

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, Tunesia. 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 an 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. The purchase price of CHF 248.213 million was calculated and recorded in the financial statements as at 31 December 2017. 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. On 1 November 2018, the parties agreed on the final purchase price of CHF 245.212 million, resulting in a reduction of CHF 3.0 million in the purchase price.

Goodwill offset against equity

Purchase costs

TCHF	2018	2017
As at 1 January	245,178	169,096
Adjustment – Pharmalys	–3,001	76,082
Addition – Bimbosan	28,776	0
As at 31 December	**270,953**	**245,178**

Accumulated amortisation

TCHF	2018	2017
As at 1 January	–35,436	–1,617
Additions	–52,272	–33,819
As at 31 December	**–87,708**	**–35,436**
Theoretical price as at 31 December	**183,245**	**209,742**

A goodwill of CHF 73,082 thousand 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	2018	2017
Net profit	8,656	40,846
Depreciation of goodwill	–52,272	–33,819
Theoretical net profit	**–43,616**	**7,027**

TCHF	2018	2017
Equity	280,847	309,282
Theoretical goodwill	183,245	209,742
Theoretical equity	**464,092**	**519,024**

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 reported in the consolidated annual financial statements for 2018 and 2017. These cover deliveries of goods and raw materials as well as services to and from related companies.

Transactions with associated companies

TCHF	2018	2017
Net sales	116,390	79,070
Cost of goods	–48,564	–10,755
Service revenue	0	24
Service costs	–667	–383
Operating expenses	0	–72
Financial revenue	16	13
Financial expenditure	–15	–10

Transactions with related companies

TCHF	2018	2017
Net sales	48,208	57,154
Cost of goods	0	0
Service revenue	138	119
Service costs 1)	–2,216	–2,136
Operating expenses	–9,311	–1,772
Financial revenue	4,809	2,833
Financial expenditure	–5,615	–971

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

Contingent liabilities

There are no contingent liabilities.

Events after the balance sheet date

After the balance sheet date and until the adoption of the consolidated financial statements by the Board of Directors, no significant events have occurred that could affect the informational value of the 2018 annual financial statements or which must be disclosed here.

The consolidated financial statements were approved in the form presented here by the Board of Directors at its meeting on 8 March 2019.

On 15 January 2019, HOCHDORF Holding Ltd acquired a majority stake in Thur Milch Ring AG according to the press release of 21 November 2018. The Group holds a total of 56.47% of the shares. The purchase price totals CHF 124 thousand, of which CHF 30 thousand already comes from previous ownership. With this investment, HOCHDORF aims to secure reliable and regular milk deliveries for the Sulgen plant. This is necessary due to the significantly higher production volume of baby food in the future.

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 8 March 2019

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of HOCHDORF Holding Ltd., which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes (pages 60 to 87) to the consolidated financial statements, for the year ended 31 December 2018.

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 2018 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 its 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 16.
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. Our audit procedures did not lead to any reservations concerning the revenue recognition.

Recoverability of trade receivables and receivables from subsidies and royalties

Audit matter	Trade receivables and receivables from subsidies and royalties from the Kingdom of Saudi Arabia (KSA) are a key item of the HOCHDORF Group's consolidated financial statements. Some of these receivables have high outstanding amounts. Management has to make assumptions in order to assess the recoverability of these receivables. The valuation principles are disclosed in the notes to the consolidated financial statements. Trade receivables and receivables from subsidies and royalties from KSA are explained in detail in note 2.
Our audit response	We audited the calculation of the bad debt allowances and the related assumptions by the management board on the recoverability of the outstanding trade receivables and the receivables from subsidies and royalties from KSA.

Our audit procedures did not lead to any reservations concerning the valuation of trade receivables and other receivables.

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

Christoph Michel
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

HOCHDORF Holding Ltd

Balance sheet as at 31 December

CHF	2018	In %	2017	In %
Assets				
Cash and cash equivalents and short-term assets with market price	6,568,753	1.1%	23,531,438	4.0%
Accounts receivables				
– to third parties	0	0.0%	1,077	0.0%
– to Shareholdings	774,833	0.1%	547,951	0.1%
Other short-term receivables				
– to third parties	17,284	0.0%	36,079	0.0%
Current assets	**7,360,870**	**1.2%**	**24,116,545**	**4.0%**
Financial assets	30,000	0.0%	0	0.0%
Loans to shareholdings	261,980,998	42.3%	240,437,765	40.4%
Shareholdings	349,704,820	56.5%	331,125,232	55.6 %
Fixed assets	**611,715,818**	**98.8%**	**571,562,997**	**96.0%**
Total assets	**619,076,687**	**100.0%**	**595,679,543**	**100.0%**
Liabilities				
Short-term external capital				
Trade payables				
– to third parties	156,796	0.0%	58,098	0.0%
Other short-term liabilities				
– to third parties	2,353	0.0%	152,443	0.0%
– to related parties (non-interest-bearing)	0	0.0%	96,388,412	16.2%
Accrued liabilities and deferred income				
– from third parties	3,605,413	0.6%	1,302,290	0.2%
Long-term external capital				
Long-term interest-bearing payables				
– to third parties	474,490,000	76.6%	343,490,000	57.7%
– to shareholdings	95,119	0.0%	94,497	0.0%
Total liabilities	**478,349,681**	**77.3%**	**441,485,740**	**74.1%**
Share capital	14,347,600	2.3%	14,347,600	2.4%
Statutory capital reserves (capital învestments)	60,242,670	9.7%	65,981,710	11.1%
General statutory profit reserves	10,172,000	1.6%	10,172,000	1.7%
Voluntary profit reserves	20,347,588	3.3%	20,347,588	3.4%
Balance sheet profit				
– profit carried forward	51,875,760	8.4%	48,347,733	8.1%
– earnings current year	–9,780,496	–1.6%	3,387,968	0.6%
Own shares	–6,478,115	–1.0%	–8,390,795	–1.4%
Shareholders' equity	**140,727,007**	**22.7%**	**154,193,803**	**25.9%**
Total liabilities and equity	**619,076,687**	**100.0%**	**595,679,543**	**100.0%**

HOCHDORF Holding Ltd

Income statement

	2018 CHF	2017 CHF
	01.01.18 – 31.12.18	01.01.17 – 31.12.17
Income from equity investments	7,705,749	3,937,581
Other financial revenue	7,126,425	5,710,966
Other operating income	7,334	680
Total income	**14,839,508**	**9,649,227**
Financial expenses	–24,148,691	–5,769,179
Other operating expenses	–416,950	–501,245
Direct taxes	–54,363	–9,165
Total expenses	**–24,620,004**	**–6,261,260**
Result for the year	**–9,780,496**	**3,387,968**

HOCHDORF Holding Ltd

Notes to the annual financial statements for 2018

Notes 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 under Article 961 d (1) of the Swiss Code of Obligations (CO) (additional information in the notes, cash flow statement and management report) are waived, because the company prepares its consolidated financial statements in accordance with Swiss GAAP FER.

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

Accounts receivable are measured at nominal value less value adjustments. Recognisable individual risks are taken into account by means of corresponding value adjustments.

Securities and financial assets

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

Own shares

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

3. Information on balance sheet and income statement items

3.1. Shareholdings

	Purpose	Currency	Capital in 1,000 31.12.2018	Capital in 1,000 31.12.2017	Capital and voting share 31.12.2018	Capital and voting share 31.12.2017	
Switzerland Milch-Gesellschaft Ltd, Hochdorf	Inactive	CHF	100	100	100%	100%	
HOCHDORF Swiss Nutrition Ltd, Hochdorf	Production	CHF	30,000	30,000	100%	100%	
HOCHDORF Baltic Milk UAB, LT-Medeikiai	Production	EUR	0	5,792	0%	100%	1)
Marbacher Ölmühle GmbH, DE-Marbach	Production	EUR	2,000	2,000	100%	100%	
Uckermärker Milch GmbH, DE-Prenzlau	Production	EUR	10,000	10,000	60%	60%	
Ostmilch Handels GmbH, DE-Bad Homburg	Retail	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	Retail	EUR	25	25	26%	26%	
HOCHDORF America's Ltd, UY-Montevideo	Retail	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	Board of Directors	TND	120	120	51%	51%	
Pharmalys Laboratories SA, Hochdorf	Retail	CHF	100	100	51%	51%	
Pharmalys Tunisie S.à.r.l., TN-Sousse	Production	TND	3,300	3,300	51%	51%	
Snapz Foods AG, Hochdorf	Trade	CHF	100	100	65%	65%	
Zifru Trockenprodukte GmbH, DE-Zittau	production,	EUR	200	200	100%	100%	
Snapz Foods USA Inc., Wilmington	Trade	USD	50	n. a.	65%	n. a.	2)
Bimbosan AG, Welschenrohr, Switzerland	Production	CHF	350	n. a.	100%	n. a.	3)

1) Sale of 100% as at 31.05.2018
2) Formation as at 29.05.2018
3) Purchase of 100% as at 30.04.2018

3.2 Short-term liabilities

TCHF	31.12.2018	31.12.2017
Services provided by third parties	157	58
Other (government bodies)	2	153
Outstanding purchase price debt for acquisition of company (non-interest bearing)	0	96,388
Total	**159**	**96,599**

3.3. Long-term interest-bearing payables

TCHF	31.12.2018	31.12.2017
Syndicated loan	131,000	0
Long-term financial liabilities (bonds)	343,490	343,490
Loans of shareholdings	95	95
Total	**474,585**	**343,585**

Maturity structure

TCHF	31.12.2018	31.12.2017
Up to 5 years	349,585	218,585
More than 5 years	125,000	125,000
Total	**474,585**	**343,585**

3.4. Other operating expenses

TCHF	31.12.2018	31.12.2017
Administration and IT expenditure	–366	–392
Marketing and sales expenditure	–1	–1
Other operating expenses	–2	–15
Bank charges, agency fees	–48	–92
Total	**–417**	**–500**

4. Shareholders

>3%	31.12.2018	31.12.2017
ZMP Invest AG, Lucerne	14.51%	14.51%
Weiss family and Innovent Holding AG, Wollerau	5.35%	5.35%
Stichting General Holdings, Amsterdam	4.23%	4.08%
Taaleri Plc., Helsinki	3.14%	3.14%
Gruppe Maurer, Hunzenschwil	3.04%	3.01%

5. Release of hidden reserves

TCHF	31.12.2018	31.12.2017
No hidden reserves	0	0

6. Transactions with own shares

Business year 2018			Business year 2017		
01.01.2018 balance	36,133 shares	at price 232.22	01.01.2017 balance	24,372 shares	at price 205.83
FY 2018 purchases	8,110 shares	at av. price 140.00	FY 2017 purchases	13,004 shares	at av. price 279.91
FY 2018 sales/allocations	13,291 shares	at av. price 264.62	FY 2017 sales/allocations	1,243 shares	at av. price 303.22
31.12.2018 balance	30,952 shares	at price 209.30	31.12.2017 balance	36,133 shares	at price 232.22

7. Contingent capital

As at 31 December 2018, 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 at 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 31.12.2018	Number of shares 31.12.2017
Dr Daniel Suter, Chairman, Audit Committee	895	296
Dr Anton von Weissenfluh, Vice Chairman, Personnel and Remuneration Committee	1,809	1,355
Dr Walter Locher, Audit Committee, Personnel and Remuneration Committee	1,713	1,553
Michiel de Ruiter, Market and Strategy Committee	225	46
Ulrike Sailer, Market and Strategy Committee	233	104
Niklaus Sauter, Audit Committee, Personnel and Remuneration Committee	620	456
Prof Dr Holger Karl-Herbert Till, Market and Strategy Committee	339	210
Total – Board of Directors	**5,834**	**4,020**

Group Management

Dr Thomas Eisenring, CEO	2,309	1,243
Marcel Gavillet, CFO	1,802	1,301
Christoph Peternell, COO	170	71
Frank Hoogland, Managing Director Baby Care	290	71
Dr Peter Pfeilschifter, Managing Director Dairy Ingredients; from 01.04.2018	63	n. a.
Werner Schweizer, Managing Director Dairy Ingredients; until 31.03.2018	n. a.	138
Michel Burla, Managing Director Cereals & Ingredients; until 31.12.2018	n. a.	36
Folkert Togtema, Chief Sales Officer; until 31.03.2018	n. a.	192
Dr Karl Gschwend, Managing Director Strategic Projects; until 31.01.2018	n. a.	71
Total – Group Management	**4,634**	**3,123**

Total – Board of Directors and Group Management	**10,468**	**7,143**
in %	0.73%	0.5%

According to the remuneration regulations, 20% of the fees of the Board of Directors and 20% (30% as of 2019) of the variable profit-sharing of Group Management are paid in the form of shares. Shares are allocated at the average price on the effective date before allocation. 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

	31.12.2018 CHF	31.12.2017 CHF
Profit carried forward	51,735,700	48,232,536
Change correction on balance of own shares from the previous year 1)	140,060	115,197
Profit current year	–9,780,496	3,387,968
Total available to Annual General Meeting	**42,095,264**	**51,735,700**

Motion concerning the proposed appropriation of available earnings

Balance carried forward	42,095,264	51,735,700
Total appropriation of profit	**42,095,264**	**51,735,700**

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	**60,242,669**	**67,411,704**
Capital investments from conversion of convertible bond 3)	0	–1,429,995
Conversion of reserves from capital investments to free reserves 2)	–5,739,040	–5,739,040
Remaining reserves from capital investments	**54,503,629**	**60,242,669**

2) CHF 4.00 (PY CHF 4.00) in dividends per nominal CHF 10 of share capital from the reserves from capital investments. 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.

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 8 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of HOCHDORF Holding Ltd., which comprise the balance sheet, income statement and notes (pages 91 to 97), for the year ended 31 December 2018.

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 2018 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.

Valuation of investments

Audit matter	HOCHDORF Holding Ltd. holds all significant 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 are based on a Discounted Cash Flow model. 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 gained an understanding over the identification of indicators for a possible impairment by management. We audited the valuation of the equity investments using the audited financial statements as well as the discounted cash flow calculations. In addition, we audited the Discounted Cash Flow Model as well as the applied interest rate. Furthermore, we interviewed management about the strategies and future outlook of the subsidiaries and considered the assumptions on which the valuations were based. Our audit procedures did not lead to any reservations concerning the valuation of the investments.

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

Christoph Michel
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

Corporate Social Responsibility

Our employees

At the end 2018, the HOCHDORF Group had a total of 694 employees. This is about 60 more than two years ago. Besides administration and sales/marketing, supply chain and technology as well as production were all areas that saw an increase in the number of employees. The increase is attributable to acquisitions as well as the new production facilities and the new logistics infrastructure in Sulgen.

Equal opportunity and diversity in the workplace
Women and men are promoted in equal measure in the HOCHDORF Group (hereinafter referred to as HOCHDORF). Women make up over a third of the workforce of HOCHDORF. At 20%, the proportion of women in middle and senior level management positions remained largely unchanged over the past two years. Bimbosan AG and Uckermärker Milch GmbH have an above-average proportion of women of over 50%.

HOCHDORF employs people from diverse social backgrounds, countries and age groups. As of the end of 2018, the company employed employees from more than 30 countries. The composition by age group was distinctly heterogeneous. The largest group of employees working at HSN, for example, was the 30% of employees aged between 50 and 59, closely followed by employees between 30 and 39, representing around 25% of the workforce.

Safety management at HOCHDORF covers areas such as occupational safety, food safety, data security, compliance and crisis management for internal and external damage events, as well as food safety crises. The "safety officer" regularly conducts hazard assessments of plants and workplaces together with an external safety engineer. In addition, the safety rules are continuously reviewed and optimised. The accident rate fell in 2018 to 0.38%.

Commitment to education and training
As at the end of 2018, HOCHDORF was training 38 apprentices in eight professions. From 2019, HOCHDORF will also offer an ICT specialist apprenticeship. In 2018, an international apprentice exchange took place for the first time, which allowed valuable know-how and experience to be collected and shared.

HOCHDORF is reliant on experts and therefore offers various further education and training courses. In addition to online hygiene training courses at the production facilities and basic dairy courses at Uckermärker Milch GmbH, HOCHDORF South Africa Ltd, for example, offers further education in the form of regular training in chocolate production. HOCHDORF also offers English courses to promote international, interdisciplinary cooperation.

HOCHDORF also encourages individual further education and training. HOCHDORF, for example, supported employees to take degree courses and acquire higher technical qualifications to become food technologists, heating plant managers, logistics specialists, packaging generalists and foreign trade specialists.

HOCHDORF also aims to pass its know-how on to future generations. An exchange programme will be launched for the first time in South Africa in 2019 in collaboration with Cape Peninsula University of Technology, which will introduce young food technologists to the process of chocolate production. As part of the programme, students will start a work placement at HOCHDORF South Africa Ltd for the first time in September 2019.

Healthy pension fund
The pension fund of HOCHDORF Swiss Nutrition performed well over the past two years and it continues to be on very solid footing. The Pension Fund Foundation is managed by a body composed of employer and employee representatives. The cover ratio was 108.8 % (as at 31 December 2018), and the savings deposits accrued interest of 2.75 % in 2018. Employees have the flexibility of retiring between the ages of 58 and 70.

Key figures - employees

	2018	2016	2014
Total number of employees (as at 31 December)	**694**	**633**	**390**
Number of full-time equivalents (as at 31 December) 1)	647	589	364
Employees by area			
Administration and Marketing/Sales	158	120	69
Laboratory and Development	91	94	52
Production	362	343	190
Supply Chain and Technology	83	76	35
Employees by location			
Hochdorf	217	212	193
Sulgen	203	166	151
Medeikiai, UAB HOCHDORF Baltic Milk		52	44
Marbach, Marbacher Ölmühle GmbH	15	14	
Prenzlau, Uckermärker Milch GmbH	163	184	
Cape Town, HOCHDORF South Africa Ltd	13	5	
Zittau, Zifru Trockenprodukte GmbH	29		
Welschenrohr, Bimbosan AG	23		
Sousse, Pharmalys Tunisie S.à.r.l.	13		
Tunis, Pharmalys Africa S.à.r.l.	15		
Hochdorf, Snapz Foods AG	3		
Apprentices	**38**	**31**	**11**
Total share of women	**38%**	**32%**	**28%**
Share of women in middle and senior-level management	**20%**	**22%**	**18%**
Staff turnover 2)	**7.8%**	**5.85%**	**6.65%**
Sickness rate, in % of all working days 3)	**3.74%**	**4.70%**	**1.14%**
Accident rate, in % of all working days	**0.38%**	**0.52%**	**0.66%**

1) Apprentices are counted as 0.50 full-time equivalent.
2) Voluntary departures in relation to the average number of employees per year.
3) First figures for companies abroad.

Our energy sources and energy consumption

The HOCHDORF Group has changed greatly in the two years since the last publication of its sustainability report. The years 2017 and 2018 were shaped by investments and acquisitions. The construction and commissioning of new production and filling plants and the high-bay warehouse in Sulgen had an impact on energy consumption. While the production of butter, curd and buttermilk at the Uckermark plant declined last year, the share of energy-intensive milk drying processes increased significantly.

The figures and projects on energy sources and energy consumption relate to production activities of the HOCHDORF Group, excluding Zifru Trockenprodukte GmbH. The chocolate plant HOCHDORF South Africa Ltd was newly included in the calculations.

Focus on product quantity
The starting point for previous analyses of energy consumption was the processed quantity of products. This has fallen by around 40% compared to 2016. The drop is attributable both to lower curd and butter production and the temporary closure of the curd business at Uckermärker Milch GmbH, as well as to the sale of the production plant in Lithuania. In addition, the total quantity of liquid has fallen by around 13% since 2016.

HOCHDORF processes and refines natural raw materials such as milk, whey, cereals and fruit and vegetables into valuable ingredients, mainly for other food manufacturers but also directly for the end customer. The most important partial processes for the production of milk powder include concentrating, drying, mixing and packaging. In the area of cereals, this is primarily the pressing of seeds and milling of press cakes into high-quality flour. The freshly harvested fruits and vegetables are washed, cut into bite-sized slices and gently dried in one of the largest air drying plants in Europe.

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

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

Water and wastewater
In 2018, fresh water consumption and wastewater volume fell in absolute terms compared to 2016. As a percentage of the produced quantity, however, the consumption increased. This was due to the strong construction activity at the Sulgen site, the commissioning of new plants at various locations and changes to the product range.

For example, the new infant formula line was put into operation in Sulgen, and the ice-water plant in Prenzlau was renovated and refilled. The switch to the production of special milk powders, such as the kosher label Badatz, has also increased water consumption. Due to the strict specifications, the equipment must be properly cleaned before each Badatz production. In addition, due to the unusually hot summer of 2018, more water had to be used for cooling purposes.

South Africa suffered from a precarious water shortage in the summer of 2018. A permanent "low water usage policy" was implemented in the plant as a separate measure to save water. Two 10,000 litre rainwater tanks were installed to supply the sanitary facilities. Other measures included recycling of condensed water from the air-conditioning system and water conservation training for employees.

Energy consumption and CO_2
The energy consumption of the HOCHDORF Group (fossil fuels and electricity) fell by almost 10% over the period of two years from 269.9 to 244.6 gigawatt hours. Over the same period, the manufactured product volume fell to 141,380 tonnes (–40.1%). The CO_2 results were calculated using conversion factors based on the original energy source. On this basis, HOCHDORF’s production plants emitted over 51,989 tonnes of CO_2 in 2018 (–9.1 % compared to 2016).

On a per tonne of manufactured product basis, however, the CO_2 emissions have increased considerably due to the relatively smaller quantity of manufactured products.

The energy consumption of the Swiss plants decreased slightly over the past two years. The quantity of products made by HOCHDORF Swiss Nutrition also declined slightly. The construction and commissioning of the new plants in Sulgen was energy-intensive. The new, state-of-the-art automatic high-bay warehouse also consumes additional energy. As a result, HOCHDORF was able to reduce the quantities stored at external service providers and the number of truck journeys. Various other measures also helped HOCHDORF cut CO_2 emissions, for example, by installing a new concentration plant in Hochdorf or by replacing the condensate drain in Sulgen.

The Uckermark plant consumed slightly more energy over the past two years, despite lower quantities of products being made there. This is mainly due to the enormous increase in the share of milk powder manufactured there (+40% compared to the previous year) as the production of milk powder is much more energy intensive than the production of curd, butter or buttermilk. Thanks to the new, more energy-efficient ice water facility, 4% of total electricity could be saved.

Outlook

As a user of agricultural raw materials, the HOCHDORF Group is dependent on an intact environment. As a first-level processor, we know that high-quality raw materials like milk, grain and oil seeds can only be manufactured in an intact environment. In Switzerland, HOCHDORF has made a commitment to the Industrial Energy Agency to reduce CO_2 emissions even more. In order to achieve this goal, the Group will increasingly invest in new, energy-efficient systems. Once the recently commissioned plants are operating at full capacity, the CO_2 emissions per manufactured product will be cut even further.

Energy and environment figures [1]

	Unit	2018	2016	2014	% change (2016 - 2018)
Produced products	**t**	**141,380**	**236,179**	**233,105**	**-40.14%**
Fossil energy (total)	**kWh**	**200,689,266**	**222,234,170**	**217,812,922**	**-9.69%**
thereof, natural gas	kWh	200,362,344	222,124,170	216,908,663	–9.80%
thereof, heating oil	kWh	326,922	110,000	904,259	197.20%
Electricity (total)	**kWh**	**43,941,728**	**47,708,177**	**46,633,511**	**–7.89%**
Fresh-water volume	**m^3**	**1,224,394**	**1,481,127**	**1,511,337**	**–17.33%**
Wastewater volume	**m^3**	**1,312,912**	**1,561,392**	**1,588,668**	**–15.91%**
Energy/output (fossil)	kWh/t	1,419.5	941.0	934	50.86%
Energy/output (electricity)	kWh/t	310.8	202.0	200.1	53.86%
Fresh water	m^3/t [2]	8.7	6.3	6.5	38.10%
Wastewater	m^3/t [2]	9.3	6.6	6.8	40.47%
CO_2 emissions	**t**	**51,989**	**57,226**	**56,376**	**–9.15%**
CO_2 emissions/prod. Product	kg/t	367.7	242.3	241.8	51.76%

1) Figures 2014 and 2016: All plants excluding HOCHDORF South Africa Ltd / Figures 2018: All plants excluding Zifru Trockenprodukte GmbH

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

The HOCHDORF Group in the community

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

At our locations both at home and abroad we receive strong backing for our commercial success. We are an international and reliable partner. In this function we currently bear a major responsibility, with 407 full-time employees in Switzerland and 240 abroad. With a payroll of nearly CHF 53.0 million, we are an important player in regional commerce and for the Treasury at our locations. Local trades also benefit as far as possible from our investment projects.

Our role in the economy and policy-making

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

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

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

Communication is important

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

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

Sponsorship and donations

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

HOCHDORF supports the Hochdorf Football Club as the main sponsor and the Seetal Hockey Club as a sponsor. In addition, we have supported various events in the vicinity of Sulgen and Hochdorf, such as Osterspringen Amriswil, the cantonal Schwingfest in Hohenrain and the Verbandsturnfest Lucerne, Obwalden and Nidwalden. In the charitable field, HOCHDORF has supported the local Samaritan association with Heliomalt and milk during blood donation events for years.

With its donations, the HOCHDORF Group supported about 140 camps, associations, and organisations in the 2017 and 2018 business years with products such as Heliomalt, wheat germ shakers, VIOGERM® Wellness Crisps and FEMTORP® Mousse. The associations and schools value our involvement very highly.

The subsidiary in South Africa has been involved in the Africa Woman Innovation & Entrepreneurship Forum (AWIEF), which supports women entrepreneurs in Africa. In addition, HOCHDORF has donated to WWF South Africa or Food and Trees for Africa, which deals with questions of food security and ecological sustainability.

At the international level we have supported Peruvian nuns with non-cash gifts for many years. The nuns are active in rural areas of Peru, not only providing spiritual welfare services but also performing numerous social tasks such as distributing medicines, giving lessons in hygiene, working as midwives and nurses, etc. For more than eight years now, HOCHDORF has been donating to the Zoodo Switzerland Foundation rather than spending money on Christmas gifts for customers. In this way, we support a baby orphanage in Burkina Faso.

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