



HOCHDORF

Swiss Nutrition Solutions



Annual Report
2020



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Further information



Important data/fact

ANNUAL REPORT 2020

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HOCHDORF

Swiss Nutrition Solutions

Facts and figures

The restructuring of HOCHDORF that started in summer 2019 was largely completed with the exception of a few issues. We also concluded the integration of Bimbosan with the move to Hochdorf in January 2021. In the current financial year, it is important to continue on the path of financial recovery.

The HOCHDORF Group

HOCHDORF was founded in 1895. The company develops, produces and markets high-quality infant formula, food for special medical purposes and milk derivatives at its two sites in Switzerland. HOCHDORF infant formula own brands are marketed via HOCHDORF Swiss Nutrition Ltd and Bimbosan AG. HOCHDORF is one of Switzerland's leading food companies, with around 400 employees as of 31 December 2020.

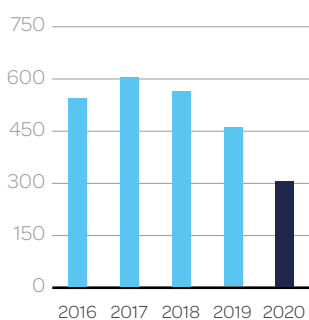
Corporate Strategy 2025 – Growth through "Smart Nutrition"

In its strategic focus up to 2025, HOCHDORF is seeking to position itself as the leading national and international Swiss competence brand for technically advanced specialist foods, in the "Smart Nutrition" segment. This is underlined by the new "HOCHDORF – Swiss Nutrition Solutions" brand identity. Advanced processing expertise for high-quality raw materials, state-of-the-art production technology and the market-focused nutrition expertise of its employees means that HOCHDORF stands out in the global market as a developer, manufacturer and marketing expert in specialist foods for people of all ages with specific nutritional needs. The portfolio offers solutions ranging from high-quality ingredients for the processing food industry to consumer products in the sensitive infant formula segment. HOCHDORF is well positioned in the international food sector in the context of global megatrends in the nutrition market and increasing demands on raw material and product quality.

FINANCIAL DATA

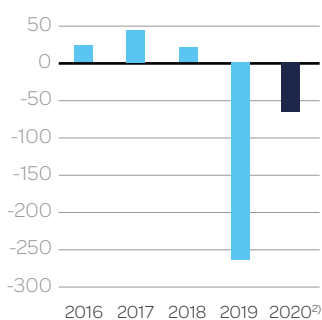
Net sales¹⁾

CHF Mio.



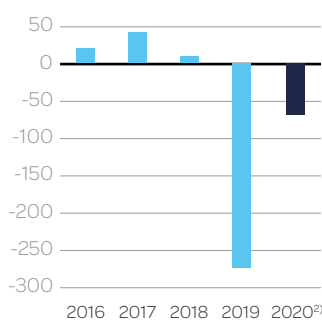
EBIT¹⁾

CHF Mio.



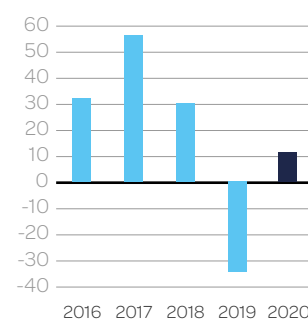
Net profit¹⁾

CHF Mio.



Earned capital

CHF Mio.



¹⁾ Comparisons with previous years are limited due to the restructuring in 2019 and 2020

²⁾ Incl. impairment of CHF 65.8 million

KEY FIGURES IN THE ANNUAL REPORT

	2020	2019 ¹⁾	2018	2017	2016
Processed milk and whey in tonnes	376,009	677,845	661,017	650,017	741,769
Products sold, in tonnes	80,732	162,093	154,609	190,499	237,054
Total assets (in TCHF)	323,838	455,572	575,231	582,270	425,474
Equity ratio	55.8%	56.6%	48.8%	53.10%	10.80%
Cash flow from operating activities (in TCHF)	-11,325	-15,430	-81,279	6,019	24,227
Market capitalisation (in TCHF)	135,991	146,296	146,346	410,700	444,417
Share price as at 31.12. in CHF	63.20	83.20	102.00	286.25	309.75
Earnings per share in CHF	-34.60	-164.55	2.02	18.43	14.12
Staffing levels at 31.12.	391	618	694	695	633

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

MARKET DATA

Net sales Food Solutions (former Dairy Ingredients)

CHF Mio.



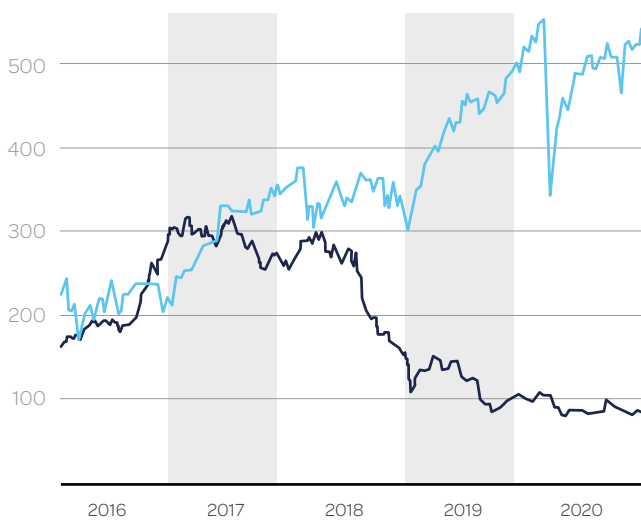
Net sales Baby Care

CHF Mio.



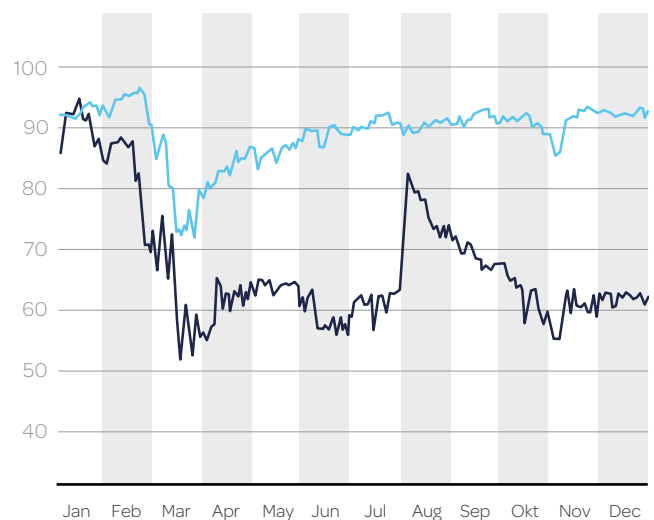
5-year comparison

%



Year comparison

%



— HOCHDORF share
— Comparison value (SPI)

Establishing strategic foundations for the future

Dear Shareholder,

During 2020, we largely completed the restructuring of the HOCHDORF Group that started in summer 2019, with the exception of a few issues. We concluded the integration of Bimbosan with the move to Hochdorf in January 2021. The business relationship with Pharmalys was improved in terms of operational cooperation. To secure the outstanding receivables from the sale of the 51% share in Pharmalys Laboratories SA, a contractual agreement was reached on 30 September 2020 to defer payment by one year with additional, far-reaching collateral. HOCHDORF achieved the sales and earnings targets (EBITDA) published for 2020, despite the negative impact of the COVID-19 pandemic. A revaluation of assets led to additional depreciation and thus to a clearly negative EBIT. However, the adjusted operating EBIT of the core business is positive and has reached break-even.

We would like to take this opportunity to inform you about our work in the 2020 business year and also present some of the central topics of this annual report in more detail:


- > The 2025 Corporate Strategy to further develop the Baby Care and Dairy Ingredients (now Food Solutions) was developed and approved by the Board of Directors and the Group Management
- > A reorganisation took place on 1 January 2021 with the aim of increasing our customer orientation in line with the strategy and significantly improving our product and service performance
- > The "Future 2030" project is the catalyst for a change in culture under the banner of "ONE HOCHDORF"
- > The new "HOCHDORF – Swiss Nutrition Solutions" brand represents the strategic repositioning of our company with its fresh image and market presence
- > We were able to demonstrate our innovative strength with a large number of new process and product developments in Baby Care and Dairy Ingredients

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Business model,
strategy and markets

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Business divisions


Achieving financial targets despite restructuring, special factors and the Covid-19 pandemic

In 2020, HOCHDORF Swiss Nutrition Ltd processed a total of 335.8 million kg (previous year: -14.2%) of milk, whey, cream and buttermilk (liquid quantity) and sold 57,488 tonnes of products. Net sales from deliveries and services amounted to CHF 306.2 million. EBITDA was CHF 13.9 million, in line with the communicated forecast. After depreciation and amortisation, EBIT was CHF -67.9 million (previous year: CHF -265.3 million). EBIT includes an impairment of CHF 65.8 million on the buildings and equipment related to the relatively new spray tower plant 9. We have taken this as a measure to reflect the low utilisation of these facilities as well as the high risk in the Baby Care business with regard to its customer portfolio. After adjustment for one-off special effects, adjusted operating EBIT of the core business was positive at CHF 2.3 million (impairment of fixed assets at the Sulgen site: -65.8 million and further special effects totalling CHF -4.4 million). At the Group level, the net loss amounts to CHF -70.3 million. Further details on the key financial figures can be found in the Financial Report and in the consolidated annual financial statements. The Board of Directors is not recommending payment of a dividend.

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Consolidated
income statement

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Financial Report

The result achieved was influenced, among other things, by special restructuring effects (sales and liquidations) and the Covid-19 pandemic. The latter led to higher domestic demand for dairy products due to the discontinuation of shopping tourism, which reduced the quantity of milk available and led to significant under-deliveries in the cream sector. The year-round travel restrictions led to significantly lower product call-offs in the Swiss chocolate industry.

 [Page 49](#)
Consolidated
balance sheet

Following the sale of Uckermärker Milch GmbH at the end of February 2020, Marbacher Ölmühle GmbH was also sold to private investors at the end of the year. We expect the liquidations of Zifru Trockenprodukte GmbH and Snapz Foods to be completed by the middle of the current business year.

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Companies in
liquidation

HOCHDORF and BIMBOSAN join together to strengthen the "Bimbosan" brand

We worked intensely on the full integration of Bimbosan AG into the HOCHDORF Group in the fourth quarter of 2020 and successfully completed it at the end of January 2021 with the physical relocation of the administration and the start of production in Hochdorf. Land and buildings in Welschenrohr have been sold to a local company. HOCHDORF expects the relocation to generate considerable synergies in cooperation as well as significant cost savings and more efficient processes. This will strengthen the Bimbosan brand strategically and operationally, enabling it to develop further in its home market of Switzerland and to position itself successfully as an international competitor. The product recall for two baby food products in June 2020 brought sales for this product group to an almost complete standstill in the second half of the year. We relaunched this segment and resumed deliveries again in the course of December. Nevertheless, Bimbosan was able to further increase its market share in the specialist market in Switzerland to 39.3%. As previously announced, we were also able to open up two new export markets for Bimbosan and significantly increase our e-commerce business in China.

Operational cooperation with Pharmalys improved and expanded

We have set up joint projects with Pharmalys for product development and opening up new markets, some of which are already being operationally implemented. Pharmalys remains the Baby Care division's largest single customer. Our goal is to continue to provide Pharmalys with the best service and to expand the business volume with ambitious projects. At the same time, our strategic objective is to grow with existing and new customers in the baby care private label sector and with our own brands Bimbosan and Babina to create a more balanced customer portfolio.

At the end of September, we extended the deadline for payment of the outstanding balance of approximately CHF 34 million from the resale of the 51% share in Pharmalys Laboratories SA to Pharmalys Invest Holding AG until 30 September 2021 at the latest. The remaining amount was secured with additional, far-reaching collateral from Pharmalys Invest Holding AG, Pharmalys Laboratories SA and the owner Amir Mechria. Interest will also be paid on the outstanding balance.

Brand registration in China still pending

The registration of the brands submitted to the Chinese authorities is still pending. To this end, we are working with the authorities in Switzerland and China, with our Chinese consultant and with our client, who is already very successful in the Chinese market with numerous brands. According to official notification, our technical dossier was forwarded to the "approval office" at the end of October 2020.

OPTIMA – our efficiency improvement programme

The Group Management launched its company-wide "OPTIMA" programme at the beginning of 2020 with five sub-projects in the areas of facilities, buildings, production processes, logistics, administration and purchasing. Two further sub-projects were added later. During the year "OPTIMA" has developed into a central component of the HOCHDORF culture, managing projects for increasing efficiency in a transparent and measurable way. Almost CHF 1.6 million was saved in the reporting year. In the current business year, we expect savings in the mid single-digit million range.



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Baby Care



bimbosan.ch



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Financial Report



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Corporate Social
Responsibility

Strategy 2025

In the second half of the year, the newly composed Board of Directors and Group Management focused on stabilising the company and shaping its future. Detailed strategies were developed in the divisions and departments and then discussed and refined together with the Group Management and the Board of Directors. The strategy and the organisational model were approved by the Board of Directors at the beginning of December 2020.



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Business model,
strategy and markets

"ONE HOCHDORF" – the guiding principle for our corporate identity

"ONE HOCHDORF" sharpens our customer, market and brand focus. In line with this, we implemented a new corporate structure at the start of 2021, with the aim of increased impact and efficiency. In short, we want to make HOCHDORF more agile, innovative and service-oriented, ensuring HOCHDORF inspires our customers and employees even more.



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"ONE HOCHDORF"
Project

The Board of Directors and Group Management attach great importance to employee participation. Our employees are the people who represent the company to the outside world and ensure success for our customers. The focus here goes beyond the sales staff to the entire value chain, from order acceptance to delivery. The logistics employee who loads our product is just as important as the development engineer who creates a new product. All activities along the value chain interlock perfectly like the intricate parts of a clock. In line with this ethos and in parallel with the strategy process, we launched a series of employee workshops under the banner "Future 2030 - What does HOCHDORF stand for?" The results from these workshops have been incorporated into the strategy.



Outlook

After years of reorganisation and restructuring, we see the 2021 business year as a year of new beginnings. At the same time, it is important to continue on the path of financial recovery. To this end, the Board of Directors is currently focusing on developing financial strategy options, which may include capital measures to further stabilise the balance sheet and support sustainable corporate growth.



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Consolidated
balance sheet

Competition has increased significantly in recent years. The main influencing factors are the successor solution to the "Schoggj Law" – where some improvements could be achieved by 2021 – and the effects of the Covid-19 pandemic, which affect the entire company. Baby Care is also strongly influenced by very strict regulatory requirements and the declining birth rates in China for several years, combined with overcapacities in the market. We want to counter these market challenges with the newly developed strategy.

In Baby Care, new customer projects are progressing much more slowly than hoped due to the Covid-19 pandemic. However, we are confident that we will continue to grow with our branded and private label customers in 2021. We are also looking to develop new customers in the Latin America, Europe, MENA and Asia regions and launch product innovations in own brand and private label.

In Food Solutions (formerly Dairy Ingredients), we still expect sales volumes from our premium chocolate customers in 2021 to be below the levels prior to Covid-19. In contrast, we expect growth for high-protein powder products based on milk and whey and for non-dairy or plant-based powders, as well as in Swiss cream sales.

In the light of these trends, HOCHDORF will focus its strategy on products that add value and are primarily produced in Sulgen. The market for functional and specialist foods, or "Smart Nutrition", which is geared to the precise needs of specific target groups, is enjoying world-wide growth. "Smart Nutrition" requires a distinct understanding of customer and consumer needs as well as a highly developed technological competence to carefully process high-quality raw materials. HOCHDORF is well positioned in the market for "Smart Nutrition" and intends to further expand its position in this area.

In 2021, we expect the HOCHDORF Group to achieve net sales in the range of CHF 260 bis 300 million and a balanced annual result at EBIT level, despite the continuing uncertainties regarding the Covid-19 pandemic. This means organic sales growth of 3 to 4 per cent for the "new" HOCHDORF Group without Uckermärker Milch GmbH, Marbacher Ölmühle GmbH and Zifru GmbH.

2020 was an intensive year in which we were able to bring many activities to a close while at the same time launching new projects. However, it will take some time before the HOCHDORF Group can post figures that are clearly positive again. We would therefore like to thank you for your loyalty to HOCHDORF. We are convinced that all employees will continue to work on the future of our company with focus and energy.

Yours sincerely
HOCHDORF Holding Ltd



Dr. Peter Pfeilschifter
CEO



Jürg Oleas
Chair of the Board of Directors



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Baby Care



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Food Solutions



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Business model,
strategy and markets



Business model, strategy and markets

Corporate Strategy 2025 – Growth through "Smart Nutrition"

In its strategic focus up to 2025, HOCHDORF is seeking to position itself as the leading national and international Swiss authoritative brand for technically advanced specialist foods, in the "Smart Nutrition" segment. This is underlined by the new "HOCHDORF – Swiss Nutrition Solutions" brand identity. Advanced processing expertise for high-quality raw materials, state-of-the-art production technology and the market-focused nutrition expertise of its employees means that HOCHDORF stands out in the global market as a developer, manufacturer and marketing expert in specialist foods for people of all ages with specific nutritional needs. The portfolio offers solutions ranging from high-quality ingredients for the processing food industry to consumer products in the sensitive infant formula segment. HOCHDORF is well positioned in the international food sector in the context of global megatrends in the nutrition market and increasing demands on raw material and product quality.

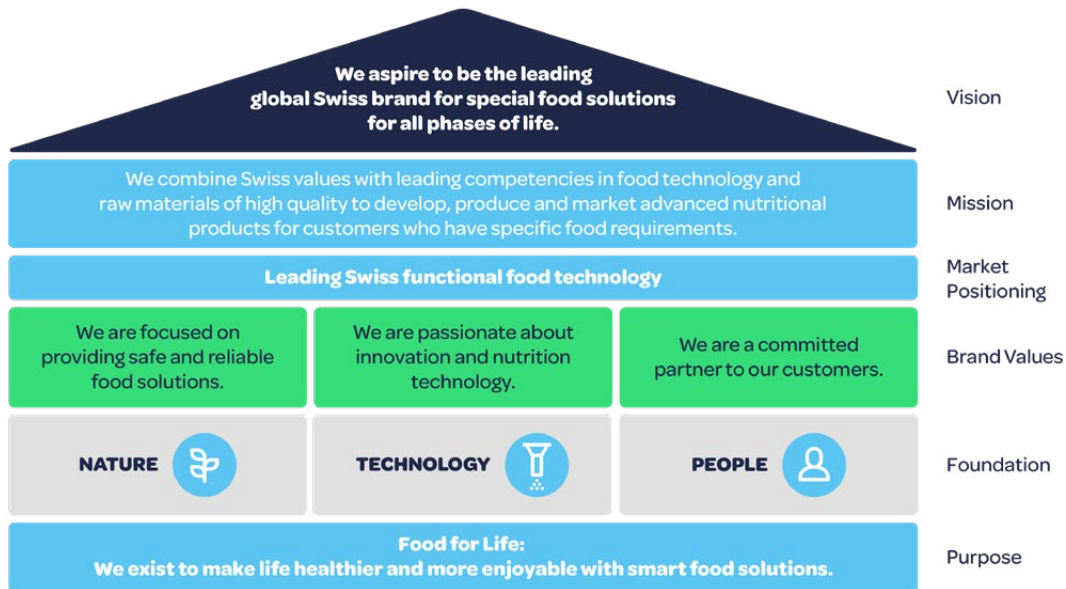


Value chain

HOCHDORF on the verge of change

Under the banner "Future 2030 - what does HOCHDORF stand for?", the Board of Directors and the Group Management worked with a group of around 20 employees on the future purpose of the company, its vision and mission, and its corporate values. The results of this process represent the fundamental values for the future orientation and development of HOCHDORF. We are more than just a dairy processor. Our technologically advanced ingredients and speciality foods are relevant to a growing number of consumers across all age groups worldwide.

In the second half of the year, the new Board of Directors and Group Management in place since mid-2020 focused on stabilising the company and shaping its future. After several turbulent years, the management deliberately prioritised securing a solid foundation for attractive growth prospects, honing the corporate strategy to focus on effective and efficient service provision in our core business. In line with this, the company divested areas outside the core business and drove forward its concentration on core competencies. The Board of Directors and Group Management discussed and sharpened the detailed strategies developed in the business units and departments to achieve these targets. The strategy and the organisational model were approved by the Board of Directors at the beginning of December 2020.

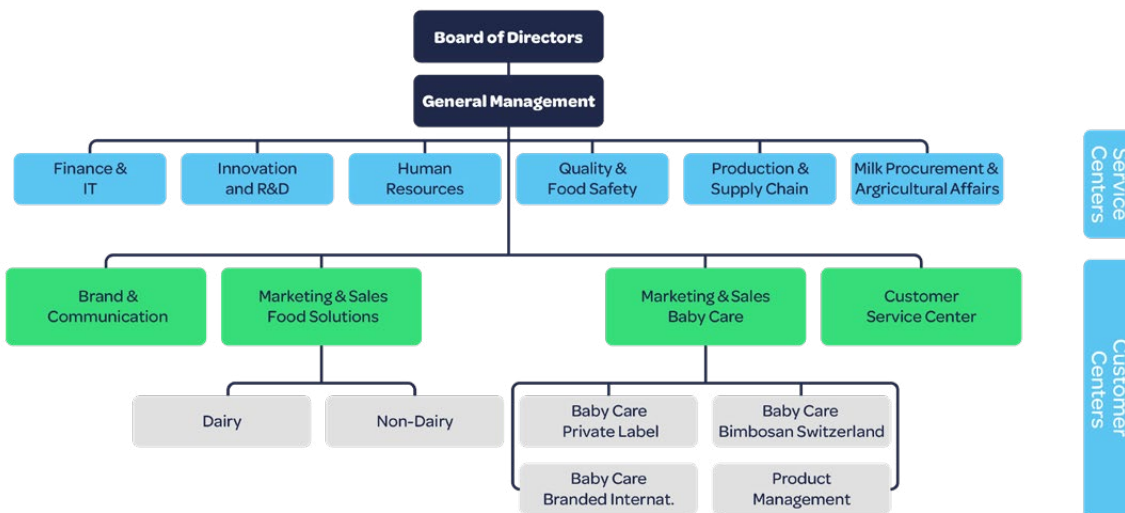


Strategic positioning

"ONE HOCHDORF" – the guiding principle for our corporate identity

The Group Management adapted the corporate structure under the banner of "ONE HOCHDORF" with the aim of strengthening corporate culture, identity and attractiveness as an employer, while at the same time promoting a consistent, company-wide sharpened focus on the customer, market and brand view. We expect the new market and customer-oriented organisational structure, supported by competent service areas, to increase effectiveness and efficiency in market development. In short, we want to make HOCHDORF more agile, innovative and service-oriented to inspire our customers and employees even more for HOCHDORF.

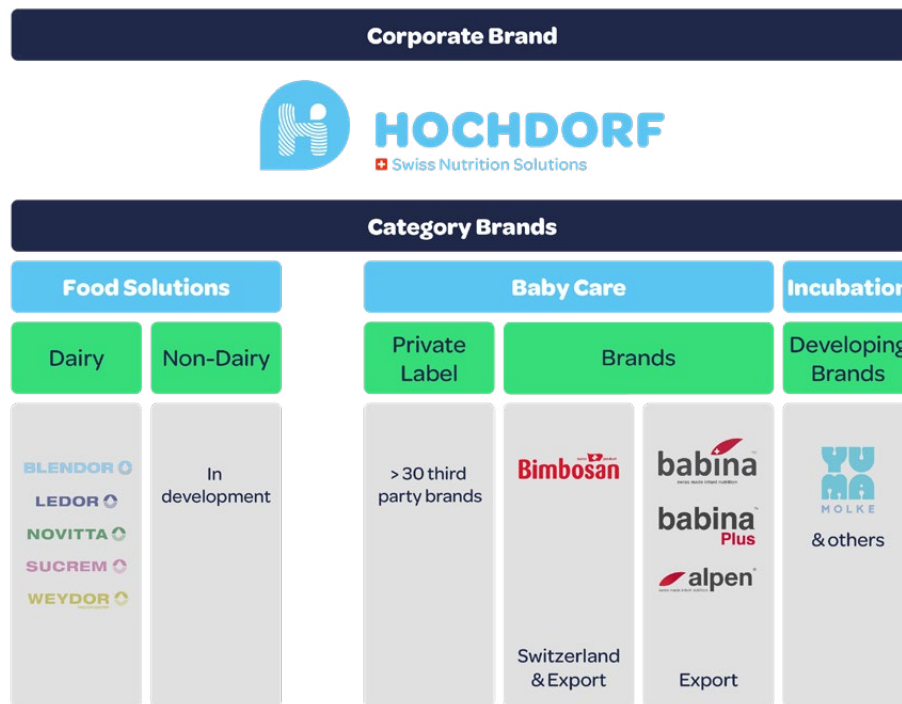
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"ONE HOCHDORF"
Project



Organisational structure as of 1 January 2021

Creating value through strong brands

As part of the strategy development process, the Board of Directors and Group Management developed an umbrella brand concept that clearly positions the company and its brands in the market. Food Solutions (formerly Dairy Ingredients) and Baby Care – both own brands and private label business – are now part of the new umbrella brand "HOCHDORF - Swiss Nutrition Solutions". This umbrella brand clearly points to our Swiss origin and communicates to partners and customers the high quality standards of our products, based on our nutrition technology expertise and reliable access to high-quality raw materials.



bimbosan.ch
babina.ch
babinaplus.ch
yuma.ch

House of Brands

In recent years, the food market has shown strong global growth in functional specialist foods that are geared to the specific needs of defined target groups. This development is based on a more conscious approach to nature and food, the worldwide phenomenon of malnutrition and increased standards in the baby care segment. The production of these "Smart Nutrition" products requires sound knowledge of nutritional physiology, a distinct understanding of customer and consumer needs as well as resilient technological competence for the careful processing of high-quality raw materials. HOCHDORF is thus well positioned in the market for "Smart Nutrition".

Baby Care

Meeting the exceptionally high standards of our demanding private label/B2B customers with high-quality special products in the Baby Care segment will remain our most important growth area in the coming years. HOCHDORF will continue to grow with existing customers in 2021 and will also develop new customers in both the brand and the important private label segment in Latin America, Europe, the Middle East and Africa, as well as Asia. Furthermore, HOCHDORF will use its strong Swiss position for targeted expansion of its own brand business internationally, to exploit synergies and strengthen our B2C expertise.



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 Baby Care

We are currently developing innovative formulations for babies and children with specific nutritional needs. We want to capitalise on our newly developed product concepts such as our infant formula based on goat milk – using them for our own brands but also placing these with our business customers. We are also working on expanding our organic baby milk portfolio, which will open up interesting niche segments with above-average margin potential. At the same time, we are laying the technical processing foundations to be able to respond more flexibly to individual customer needs. We also plan to expand our range of semi-finished products, known as base powders, for industrial customers. The innovation of new product solutions for our business customers and our end consumers is therefore a key growth driver for the years ahead.

To ensure success in the various growth areas, we have formed three sales units: Bimbosan Switzerland, Own Brands International and Private Label. We also plan to strengthen our competencies in end consumer marketing and brand management for the growth of our own brand business with Bimbosan and Babina. We will continue to expand our staffing in national and international sales and are also investing in sales through online channels worldwide. We aim to enter at least two new markets with our own brands in 2021.

Food Solutions

In Food Solutions, our premium chocolate customers provide an important basis and we are working closely with our partners and supporting them with new developments. The market potential and margin development in this segment have to be examined continuously and carefully. We will also develop a stronger position in the development and marketing of high-quality whey-based and plant-based ingredients especially for our own use in Baby Care.

Launching our whey competence centre in Sulgen and further advancements in product innovations are key goals for the current business year.

Functional strategies to support successful business development

In terms of milk procurement and agricultural policy, our strategic action plan will further improve the international competitiveness of Swiss milk. For future growth, it is important to ensure sufficient milk and whey supplies and to highlight the advantages of Swiss milk more clearly.

In our production and supply chain, we want to make a significant contribution to greater added value and improved customer satisfaction by increasing the utilisation of production capacities and optimising supply chains. Our "Operational Excellence Programme" is one way of achieving this. In the future, we will also work more closely with our partners in the supply chain to continuously improve our quality and service to meet customer demand.

The Quality and Food Safety Department aims to ensure the highest level of food safety at all times and to anchor this understanding even more broadly and deeply in the company. Quality assurance will thus underpin the "Operational Excellence Programme". In tandem with this, we want to better prepare the entire workforce for future challenges and expand their competences.

In the area of research and development, a new departmental structure with a focus on product and process development makes it possible to cover the diverse requirements close to the market more effectively, use synergies, create added value and connect interfaces. Innovation is a key growth driver for both business units. We are investing in establishing an interdepartmental China competence team to strengthen our knowledge and skills in this strategic growth area.

In relation to finance and controlling, we want to make all financial processes more efficient and enable more transparent reporting for controlling. At the same time, we aim to optimise liquidity management and raise awareness of compliance and corporate governance issues.



Our IT department is working on further digitising our processes and the way we work together within the company and with our customers and partners. In view of the sharp increase in cyber attacks, we are also paying additional attention to HOCHDORF's IT security status.

Our HR department is focussing on positioning the HOCHDORF Group as an attractive employer both internally and externally. Our aim here is to attract, retain and develop qualified and motivated employees. We want to involve our employees more closely and make them "stakeholders". Each employee will individually formulate the corporate values in concrete terms for their own workplace, for instance.



Our risk management identifies business risks, includes them in the individual strategy fields and addresses them with concrete measures.

As part of its future strategy development, the Board of Directors and Group have jointly agreed to intensify HOCHDORF's sustainability efforts. This will include creating a long-term sustainability strategy with new ambitious targets and measures along the value chain by the end of 2021. In addition to the topics already under consideration, this will also address the action areas of sustainable milk and animal welfare, climate and greenhouse gas emissions, waste prevention and water consumption.



Strategic foundations established for the future

The operating environment did not become easier in 2020. The intensity of competition increased and the impact of the COVID-19 pandemic is strongly influencing raw material availability and supply chain collateral, as well as on our customers' sales and growth. The Swiss chocolate industry struggled with a significant drop in demand in 2020, both domestically and abroad, due to the pandemic; it is likely to take several years to recover to pre-pandemic sales levels. In the infant formula sector, we are challenged with constantly growing regulatory requirements, declining birth rates in China for several years and overcapacities in the market. In contrast, the global change in nutritional habits and demand for high-quality and technically sophisticated specialist foods – or "Smart Nutrition" – offers interesting growth opportunities with above-average added value for a company like HOCHDORF, with its strong and agile development and technology competence. We see market opportunities here in the "Smart Nutrition" niche for specialist foods with a high functional added value for our industrial customers and consumers. We are well equipped to meet these future challenges.



“ONE HOCHDORF” FOR THE FUTURE



“The ONE HOCHDORF project focuses on customer orientation, strengthens the corporate identity and the corporate values. It is the employees who bring ONE HOCHDORF to life.”



“Together we are strong and can move forward.”

When we joined the HOCHDORF Group, it was as if we had always been part of it. And that is not a given. The “ONE HOCHDORF” magic formula has worked.

The integration has given me access to new work tools and processes that enable me to foster cohesion in my sales team. “ONE HOCHDORF” has created a new dynamic.

I live and breathe ONE HOCHDORF every day by passing on my passion for our products and the company to our customers and partners. I pay them special attention and make sure no-one is left out. I want to be the driving force for my team and show them where we want the new organisational structure and culture to take us. This means listening, finding joint solutions, growing and becoming stronger together. It allows us to join forces and perform better.

Christelle Hoessly
Head of Sales Bimbosan Schweiz

Christelle started at Bimbosan in 2011 as a sales representative. With the integration into the HOCHDORF Group, she took over the sales management of Bimbosan Switzerland and a team of seven employees.

“Corporate values are created through daily collaboration.”

For me, the new organisational structure means focusing more on the interests of the customer. We have integrated the internal sales services of Bimbosan, Dairy Ingredients and Baby Care into one department to support this. Together with production planning and the customs department, they form the new Customer Service Centre.

The new spirit is tangible already. Customer Service has moved towards Customer Excellence in terms of quality, know-how and specialisation. This is because we can exchange ideas more effectively, learn from each other and provide mutual support. We can standardise and simplify processes.



Christian Fanger
VP Marketing & Sales Food Solutions /
Head of Customer Service Centre

Christian has worked for HOCHDORF since 2001. He manages a total of 19 employees at the Hochdorf site in his role as Head of Customer Service Centre.

The new organisation reflects the guiding principle of “ONE HOCHDORF” very well and has made a clear difference in our company. We have merged the various development departments into one umbrella department. The new structure supports cooperation and communication across departments and locations, allowing us to develop innovations together for the company.

I put “ONE HOCHDORF” into practice every day. I approach our projects and with this mindset, which opens up valuable synergies for me. I also consciously invest time in listening to the employees and understanding them. In return, I often receive input that I incorporate into my work. I want to create a climate that enables impartial exchange. Often you only realise the benefit later when you meet someone else who found that the earlier discussion provided the perfect solution to a problem.

“Listening and understanding provide me with valuable input.”



Lukas Hartmann, VP Innovation and R&D
Lukas has worked at HOCHDORF for four years. He leads four teams in different locations with a total of 14 employees.



Iyke Moneke, Head of Production Baby Care Sulgen
Iyke has been working at the site for about 20 years in various functions. He manages a production area with 25 employees.

I see the new organisational structure “ONE HOCHDORF” as a strong signal to the outside world as well as to each other. The Hochdorf and Sulgen sites should be seen as one. One for all and all for one.

For me, “ONE HOCHDORF” is not an empty term: it enables us to move in the right direction. In my function as an interface between different people, areas and processes, I try to listen carefully. Then it is a matter of bringing the individual groups together to achieve the common goal. Working together means sharing not only the successes but also the setbacks.

“One for all across all sites – and all for one”



Eldin Smajovic, Head of Logistics Sulgen

Since August 2016, Eldin has been working at the Sulgen. He is responsible for a team of 27 employees.

“For me,
ONE HOCHDORF means
supporting and helping
each other.”

For me, “ONE HOCHDORF” means supporting and helping each other. My actions impact the entire environment in which the HOCHDORF Group operates, beyond my own department. This includes, for example, our suppliers, employees and customers. Together, they create the spirit of “ONE HOCHDORF”.

In order to share this spirit with the outside world, I try to convey a strong sense of community to my colleagues in the company. I do this by exemplifying the company values and treating everyone equally. “ONE HOCHDORF” is already clearly tangible in the company. When HOCHDORF has had to deal with difficult business challenges it becomes clear who can best implement these values and who finds it more difficult.

“We don’t leave
anyone high and dry.”

For me, “ONE HOCHDORF” is more than the name of our new organisational structure; it’s a fundamental attitude that runs through the entire company. It represents our networked way of working and our behaviour.

The fresh impetus in the company stands out. Our two production sites are working even closer together than before. We help and support each other – so no-one is left high and dry. If one of our plants reaches the limits of its capacity for milk processing or if there is a malfunction, the other plant picks up the slack and sometimes reschedules its own production planning.

When it comes to production, the customer is always the centre of attention. We try to pull out all the stops to meet our many and varied customer requirements.



Aline Schär, Head of Production, Hochdorf site

Aline has been working at HOCHDORF since 2017. Following maternity leave, she returned to her role and leads a team of 28 employees.

HOCHDORF share

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

KEY INDICATORS FOR HOCHDORF HOLDING LTD STOCK

		2020	2019 ¹⁾	2018	2017	2016
Share capital as of 31.12.	TCHF	21,518	17,584	14,348	14,348	14,348
Number of shares, outstanding	Unit	2,151,757	1,758,369	1,434,760	1,434,760	1,434,760
Nominal value per share	CHF	10.00	10.00	10.00	10.00	10.00
Earnings per share	CHF	-34.60	-164.55	2.02	18.43	14.12
Earned capital per share	CHF	5.15	-19.80	21.21	39.06	22.45
Equity per share	CHF	83.67	146.62	195.74	215.56	31.92
Dividend per share	CHF	0.00 ²⁾	0.00	0.00	4.00	3.80
Peak price	CHF	92.5	147.20	314.50	340.00	320.00
Lowest price	CHF	50.00	51.90	94.10	247.80	163.00
Price at close of trading as of 31.12.	CHF	63.20	83.20	102.00	286.25	309.75
Market capitalisation as of 31.12.	TCHF	135,991	146,296	146,346	410,700	444,417
Average trading volume per day	Unit	826	3,408	1,840	3,131	2,650
P/E (price/earnings ratio) as of 31.12.		n.a.	n.a.	50.4	15.5	21.9
Dividend return	%	0.00	0.00	0.00	1.4	1.23

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

²⁾ Proposal of the Board of Directors to the Annual General Meeting



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Significant
shareholders

Dairy Ingredients to become "Food Solutions"

By setting up a whey competence centre and developing vegan powdered products, Dairy Ingredients is following the trend towards functional ingredients for the food processing industry. National measures to combat the Covid-19 pandemic led to a sharp increase in domestic demand for milk products and reduced availability of milk for HOCHDORF. However, with the exception of cream products, it was possible to avoid bottlenecks in supply to a large extent. Net sales revenue of CHF 206.7 million is within the projected range for 2020.

In Switzerland, HOCHDORF Swiss Nutrition Ltd processed a liquid quantity (milk, cream, whey and permeate) of 335.8 million kg (previous year 391.4 million kg; -14.2%). The reduced liquid quantity can be explained chiefly by higher domestic demand for milk products during the Covid-19 lockdown in spring and autumn/winter of 2020. Therefore, we were not able to completely fulfil the agreed cream deliveries to our customers. Due to the global pandemic, the Swiss premium chocolate industry required smaller quantities of milk powder. The main reasons for the reduced calls are the lower chocolate sales in the duty-free and Swiss tourism sector, as well as lower exports. Despite the difficult global economic situation, we still succeeded in reaching projected sales with net income of CHF 206.7 million (projection for 2020: CHF 190 to 210 million).

Dairy Ingredients acquires new markets with functional ingredients

The Dairy Ingredients division continued to make progress on the strategic development and marketing of value-creating products in the 2020 business year. In this context, we started building a whey competence centre at the Sulgen plant in autumn 2020 for the purpose of further refining whey as a raw material. This enables us to develop and produce high-quality whey-based functional ingredients for use in baby care and high-protein products. It also gives us the opportunity to replace the purchase of some important Baby Care ingredients with our own products and significantly increase internal value creation. We are also actively contributing to reducing food waste.



[hochdorf.com/
food solutions](https://hochdorf.com/food-solutions)



We have developed an innovative ingredient for sports nutrition and weight management, a vegan MCT powder made from medium-chain fatty acids, as well as lactose-free skimmed and whole milk powders and special protein mixtures for the production of high-protein yoghurts.

In addition, Dairy Ingredients gave its traditional brands LEDOR, NOVITTA and SUCREM a new look with updated logos and combined its whey-based products under the brand name WEYDOR. Functional, customised blends of whey and milk proteins are marketed under the name BLENDOR.

Discontinued areas

The sale of Uckermärker Milch GmbH at the end of February 2020 and Marbacher Ölmühle GmbH at the end of 2020 completed the realignment of the Dairy Ingredients division to focus on the Swiss production sites in Hochdorf and Sulgen.

Outlook

The implementation of the whey competence centre in Sulgen is a key goal for the current business year. We also want to push ahead with the product innovations we have initiated in terms of whey and MCT powder. New customer solutions are also being pursued in the area of non-cow's milk and vegan products. To underline the breadth of our technological and application expertise, we decided to change the division name from Dairy Ingredients to "Food Solutions" as of the beginning of 2021.

We will continue to work intensively on various process optimisations in 2021. This work is extremely important in a competitive market environment. In particular, the milk market has been transformed from a buyer's market to a seller's market. For this reason, we will strengthen our relationships with our milk suppliers and promote our attractive product portfolio.

Projected sales for the "Food Solutions" division will depend most on the progression of the Covid-19 pandemic. Among other things, we are planning for slightly increasing volumes of roller dried milk powder for our premium chocolate customers and with increasing sales in the cream sector as well as for functional ingredients. Compared to the previous year, net sales revenue will be slightly lower due to the discontinuation of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH.



Baby Care Division

With net income of CHF 99.5 million, the Baby Care business area achieved sales growth of 4% after adjustment for special effects. HOCHDORF achieved its largest share of turnover with sales to Pharmalys. Bimbosan increased its share in the Swiss specialist market to just over 39%. The basis for further growth has been established with the development of innovative products for special nutritional needs and intensified market development.

In 2020, the Baby Care division (HOCHDORF Swiss Nutrition Ltd and Bimbosan AG) achieved net sales of CHF 99.5 million. After eliminating the value adjustments on receivables made in 2019 and the market sales of Pharmalys Laboratories SA, we increased net sales by 4% compared to 2019, despite the loss of a major customer and the challenges posed by the Covid-19 pandemic. Net income is therefore within the projected sales range of CHF 90 million to 110 million. The largest share of turnover was achieved with sales to Pharmalys. Despite the recall of baby food products, Bimbosan AG remained at the previous year's level and was able to increase its specialist market share to just over 39%.

Innovative products for special nutritional requirements are fuelling growth

In 2020, the Baby Care division focused more on project development with existing and new customers as well as on the development of new products. With the change in EU regulations in February 2020, we launched the newly developed products successfully on the markets in Switzerland and Europe. These are based on the latest scientific findings and positioned in the premium segment.

We have incorporated current trends in nutrition to extend our product range. On the one hand, we have developed a product range based on goat milk; "Baaa is our new moo". On the other hand, we have managed to develop a vegan infant formula based on GMO-free soy. At the end of 2020, we launched both new product concepts on the Swiss market under the Bimbosan brand.

By launching Babina Plus in Central America, we expanded our own brand business together with our long-term distribution partner. Babina Plus is a milk formula for growing children and adolescents. Unlike Babina (infant formula) it is sold in retail outlets as well as pharmacies and chemist stores. You can find more information on our website: www.babinaplus.ch. Due to the Covid-19 pandemic, HOCHDORF was unable to provide on-site training on the benefits of Babina Plus to the medical sales force. Instead, our training team organised targeted webinars at short notice, which received positive feedback from our partners.

Our Pre-Term baby food (special food for premature babies) is another product development highlight.

Our aim for the current business year is to place this special food with our partners in different markets.



bimbosan.ch



babinaplus.ch



Outlook

To support the further development of the Baby Care business unit, we have formed three sales units: Bimbosan Switzerland, International Own Brands, and Private Label.

The Bimbosan brand will be further strengthened in Switzerland. To achieve this, we are investing in the expansion of our sales force, the launch of new products such as goat milk and vegan soy milk, the relaunch of baby food products and updated branding.

We are specifically strengthening our sales team to accelerate the international expansion of our two own brands, Bimbosan and Babina. We are also consolidating sales from online channels globally. Our aim is to acquire at least two new export markets in 2021.

To ensure existing production capacities are met in Sulgen as quickly as possible, it is important to expand our Private Label business significantly. To achieve this, we want to acquire new customers and place the newly developed products, like our goat milk-based infant formula, with our business partners. We are also working on developing new formula for babies with special requirements and laying the process and technical foundations to enable us to meet individual customer needs more flexibly. We will expand our range to include semi-finished products, known as base powders, for industrial customers.

Due to the ongoing uncertainties around the Covid-19 pandemic and related project delays, we have not published a net sales revenue projection for the Baby Care business.



Goat milk is naturally full of goodness. For example, goat milk-based baby food is very easy to digest because it has smaller “protein globules” that can be broken down by digestive enzymes more easily than the proteins in cow’s milk.

Financial Report

After 2019 and a year of initiating restructuring and adjustments, HOCHDORF demonstrated a better financial position operationally in 2020 with EBIT at break-even after adjustment for one-off special effects. We consistently implemented restructuring measures across most areas and carried out value adjustments on the production facilities at the Sulgen site in this context. HOCHDORF achieved the sales and earnings targets published for the 2020 financial year despite the negative impact of the COVID-19 pandemic. However, HOCHDORF still faces major challenges to its financial situation.

Net sales from goods and services fell in line with expectations from CHF 456.8 million to CHF 306.2 million, with both business divisions developing differently. Net sales in the Dairy Ingredients division (now: Food Solutions) fell from CHF 360.0 million to CHF 206.7 million. This is mainly explained by the sale of the subsidiary Uckermärker Milch GmbH. This division also saw a decline in demand from the export-oriented Swiss premium chocolate industry, as travel retail sales and domestic sales decreased sharply due to the Covid-19 pandemic and the resulting significant travel reduction travel and tourism slump.



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Food Solutions

The Baby Care business, on the other hand, increased its net sales from CHF 72.8 million to CHF 99.5 million. After eliminating the bad debt provisions made in 2019 and the market turnover from the sale of Pharmalys Laboratories SA, we were able to increase net sales by 4% despite the loss of a major customer and the challenges posed by the Covid-19 pandemic. The largest share of net sales came from sales to Pharmalys.



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Baby Care

Although the share of net sales realised in Switzerland rose to over 50% in relative terms, it fell by about CHF 35 million in absolute terms. This is due on the one hand to the lower demand from the chocolate industry described above and on the other hand to the discontinuation of the Cereals & Ingredients division. The percentage of European sales fell from 44% to 23% due to the sale of Uckermärker Milch GmbH. While sales in Asia remained stable, the share of net sales to the Middle East/Africa increased to 20% (CHF 60.5 million). We were also able to increase net sales in Latin America slightly from CHF 4.4 million to CHF 7.1 million.



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Consolidated income statement by region

Lower net sales, but better gross margin

Despite this significantly lower net sales, the gross profit increased from CHF 61.8 million to CHF 94.3 million; the gross profit margin was 30.9% (previous year: 14.1%). On the one hand, this was due to the extraordinary burden on the gross result in 2019 caused by special effects (value adjustments on receivables, damage claims). On the other hand, the positive effect of the portfolio streamlining is evident (elimination of low-margin areas such as Uckermärker Milch GmbH and discontinuation of the Cereals & Ingredients division).



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Consolidated income statement

Personnel expenses decreased significantly from CHF 50.8 million to CHF 39.7 million due to the sale of the subsidiaries Uckermärker GmbH and Marbacher Ölmühle. At the end of the year under review, HOCHDORF still employed 391 people (previous year: 618). Other operating expenses also fell sharply from CHF 85.8 million to CHF 40.7 million: in 2019, this was burdened by the high extraordinary costs incurred by the Pharmalys Group and by some special effects such as forming provisions.

The EBITDA was clearly positive at CHF 13.9 million (2019: CHF -74.7 million). We thus fully met our aim of a positive EBITDA.

Depreciation includes an impairment of CHF 65.8 million on the buildings and property, plant and equipment of the relatively new spray tower plant 9 and the associated canning line. We have taken this as a measure to reflect the low utilisation of these facilities as well as the high risk in the Baby Care business with regard to its customer portfolio. Furthermore, depreciation and amortisation includes a gain from the sale of subsidiaries (CHF 1.1 million) on the one hand; on the other hand, depreciation and amortisation were increased by CHF 1.1 million due to the adjustment of the useful lives of property, plant and equipment in accordance with the rules.

Strongly negative EBIT, but adjusted operating EBIT of core business reaches break-even point

After adjusting the negative EBIT of CHF –67.9 million (previous year: CHF –265.3 million) for one-off special effects, the adjusted operating EBIT of the core business was positive at CHF 2.3 million (Impairment of fixed assets: CHF –65.8 million and additional special effects totalling CHF –4.4 million).

In 2020, we benefited from the disposal or liquidation of the loss-generating companies, such as Pharmalys Laboratories, Uckermärker Milch GmbH and the other companies from the Cereals & Ingredients division. This shows that the agreed and consistently implemented path of restructuring was the right way to go. The OPTIMA cost efficiency programme also had a positive impact on the result. Measures to make savings in the areas of purchasing and a reduction in operating costs, especially in the plants, have already been successfully implemented. For 2021, we expect further substantial savings from the OPTIMA projects, reaching into the single-digit million range.

Financial result significantly improved but still heavily burdened; negative net profit

The net profit increased from CHF –8.7 million to CHF –5.1 million. This is due to lower indebtedness to syndicate banks after a partial redemption. It should be taken into account that the interest for the hybrid bond and for the mandatory convertible bond are not posted through the income statement in Swiss GAAP FER. The Group's net profit was CHF –70.3 million (2019: CHF –271.4 million).

Negative cash flow from operating activities, positive free cash flow

The earned capital increased from CHF –34.8 million to CHF 11.1 million, indicating that the operating business is cash positive. However, the change in net current assets is CHF –22.4 million, so that the cash flow from operating activities is negative (CHF –11.3 million). The main reason for this is the high accrued receivables from Pharmalys, both from the supply business and from the outstanding payments in connection with the resale of Pharmalys Laboratories AG. Due to the low investments and payment of the first outstanding purchase price payments from Pharmalys, the free cash flow was positive at CHF 17.3 million. The cash flow from financing activities was clearly negative at CHF –24.9 million, driven by high interest payments, but also redemption payments to the syndicate banks and to third-party banks in connection with the sale of Uckermärker Milch GmbH.

Net debt fell further compared to 31.12.2019 from CHF 104.7 million to CHF 87.6 million. The hybrid bond and the mandatory convertible bond are classed as equity and do not affect net debt.

Strong equity ratio and positive development

Despite the strongly negative company result, the equity ratio remains stable at 56% (previous year: 57%), as the negative impact on earnings was compensated by the sale of subsidiaries and the repayment of bank debts. In summary, we can say that the operational financial figures reflect the positive development of HOCHDORF after the implementation of the restructuring measures. Although the company result is clearly negative, it is the result of one-time special effects; an adjusted EBIT shows a break-even. In 2020, the foundation was laid for further growth in the coming years. However, the balance sheet and the liquidity situation must be further stabilised in order to support sustainable corporate growth (see also the Risk report and Notes to the consolidated financial statements of the HOCHDORF Group, note 33). For this reason, the Board of Directors is currently focusing on developing financial strategy options, which may include capital measures.



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Companies in liquidation



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Consolidated cash flow statement



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Consolidated balance sheet

KEY FIGURES OF THE HOCHDORF GROUP

CHF 1,000	2020	2019 ¹⁾	2018	2017	2016
Processed milk and whey in tonnes	376,009	667,845	661,017	650,017	741,770
Quantities produced including cream in tonnes	69,091	161,831	141,380	186,845	236,179
Turnover (net sales from goods and services)	306,199	456,797	561,031	600,527	541,606
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	13,869	-74,709	35,886	55,719	33,360
As % of production revenue	4.5%	-17.0%	6.3%	9.2%	6.1%
Earnings before interest and taxes (EBIT)	-67,872	-265,309	18,649	42,616	22,464
As % of production revenue	-22.3%	-60.3%	3.3%	7.1%	4.1%
Earnings before taxes	-72,608	-273,962	10,405	45,856	22,377
As % of production revenue	-23.8%	-62.3%	1.8%	7.6%	4.1%
Net profit	-70,274	-271,378	8,656	40,846	19,406
As % of production revenue	-23.0%	-61.7%	1.5%	6.8%	3.6%
Personnel expenses	39,722	50,757	52,980	51,000	47,796
As % of production revenue	13.0%	11.5%	9.2%	8.4%	8.8%
Depreciation of fixed assets	82,228	47,891	13,030	12,336	10,386
as % of average net position	38.0%	17.1%	4.4%	5.1%	5.6%
Investments in fixed assets	3,718	8,449	34,924	84,788	42,217
as % of production sales	1.2%	1.9%	6.1%	14.0%	7.8%
Earned Capital	11,097	-34,821	30,425	56,035	32,213
in % of net sales	3.6	-7.6%	5.4%	9.3%	5.9%
Cash flow from operating activities (cash flow)	-11,325	-15,439	-81,279	6,019	24,227
as % of net sales	-3.7%	-3.4%	-14.5%	1.0%	4.5%
Free cash flow (loss)	17,339	16,306	-148,530	-84,078	-33,519
Equity ratio	55.8%	58.6%	48.8%	53.1%	10.8%
Interest cover (EBIT/interest expenses net)	n.a.	n.a.	1.6	8.8	19.2
Number of shares, outstanding, in units	2,151,757	1,758,369	1,434,760	1,434,760	1,434,760
Earnings per share in CHF	-34.60	-164.55	2.02	18.43	14.12
Earned Capital per share in CHF	5.14	-19.80	21.21	39.06	22.45
Dividend	0%	0%	0%	40%	38%
Payout ratio	0.00%	0.00%	0.00%	21.51%	27.35%
Share price as at 31.12. in CHF	63.20	83.20	102.0	286.25	309.75
Dividend return	0.00%	0.00%	0.00%	1.40%	1.23%
Price/earnings (P/E) ratio	n.a.	n.a.	50.4	15.5	21.9
Market capitalisation	135,991	146,296	146,346	410,700	444,417
Staffing levels as at 31.12.	391	618	694	695	633

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

Risk report

Risk management

Risk management provides important support in protecting and securing the future potential of the HOCHDORF Group. The Board of Directors of the HOCHDORF Group bears ultimate responsibility, with implementation delegated to the Group Management.

The HOCHDORF Group has implemented a risk management process for all Group companies. Using workshops and individual interviews, risks are identified and assessed in terms of their potential financial impact on the HOCHDORF Group's results and their probability of occurrence. Risks are categorised as strategic, operational, financial and other risks. Based on this, risk minimisation measures (measure, person responsible, time, required resources) are defined and risk reporting is carried out.

The Board of Directors of HOCHDORF Holding Ltd approved the risk assessment in the reporting year and monitors the implementation of the defined measures by the Group Management. The process is repeated once a year. The Group Management also reviews and evaluates risks and their implementation every six months and informs the Board of Directors immediately of any deviations.

The following risks, among others, have been identified as significant risks for the HOCHDORF Group:

- **Cluster risk (debtors) in the Baby Care division due to the customer Pharmalys, who is also the debtor of outstanding purchase price payments** (see explanations on risk minimisation in note 33 of the notes to the consolidated financial statements of the HOCHDORF Group, "Assessment as a going concern").
- **Access to raw material milk:** Access to the raw material milk is essential for the further positive development of the HOCHDORF Group. To ensure that this remains the case in the future, HOCHDORF is increasingly focusing on product innovation, the development and expansion of its own brands and high value-added markets, alongside the continuous improvement of our cost efficiency in order to be able to offer sustainably attractive milk prices. On the other hand, HOCHDORF strives for strategic partnerships with milk supplier organisations.
- **Regulatory conformity of products:** The continuously rising demands of our customers as well as the increasing regulatory requirements pose ever new challenges for the production of baby food products, which is why HOCHDORF has developed and is constantly refining corresponding systems and testing standards. Integrated quality management is carried out in close cooperation with our customers and suppliers as well as the internal departments, including Development, Quality and Regulatory Affairs, Procurement and Production. Deviations and deficiencies are methodically analysed, documented and discussed with the parties involved in order to continuously develop "operational excellence" in the sense of a continuous improvement process. HOCHDORF attaches great importance to safe production across all stages of the value chain and thus to safe products for our customers and consumers

Regulatory and political risks

In principle, the HOCHDORF Group is dependent on a wide range of regulatory and political aspects. Changes could have a negative impact on the business activity, financial situation and/or profitability of the HOCHDORF Group (e.g. legal and regulatory changes in export markets, customs agreements, food requirements, etc.). This can result in high price and volume fluctuations on the procurement and sales markets. HOCHDORF monitors economic and political developments in the individual countries in order to keep procurement and sales risks as low as possible.

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. Liquidity risks are managed through central cash management by ensuring that planned liquidity requirements are covered by appropriate financing arrangements.

Finally, the HOCHDORF Group's risk policy includes hedging risks through comprehensive and efficient insurance cover. An international insurance programme serves this purpose in the areas of liability, product protection, property insurance and transport, among others.

Internal control system

The HOCHDORF Group has set up an internal control system (ICS) with the aim of ensuring the effectiveness and efficiency of its operations, the reliability of its accounting and compliance with legal requirements. The ICS is an essential part of the risk management system. The compliance and effectiveness of the ICS will be subject to a fundamental review in 2021 in order to further increase its effectiveness.

Internal Audit

The internal audit supports the Board of Directors in its monitoring and controlling duties. It provides an independent and objective auditing and consulting service, which is designed to review, evaluate and continuously improve the effectiveness of the risk management, the controls and the management and monitoring processes using a systematic and targeted approach.

In 2020, audits were conducted in the areas of corporate governance, inventory management, human resources and data security. The results were recorded in written audit reports which, in addition to the findings and recommendations of the internal audit, contain the opinion of the management with planned measures and times for implementation. The report is distributed to the members of the Board of Directors and the Group Management. The reports and the defined measures are presented and discussed during the Audit Committee meetings. Group Management checks the implementation of the defined measures and keeps the Audit Committee continually informed.

The internal audit of the HOCHDORF Group was outsourced in the reporting year and carried out among others by PricewaterhouseCoopers with the support of specialists from the relevant departments. In 2020, the Board of Directors decided to strengthen internal auditing with the creation of its own organisationally independent position of "Senior Internal Auditor", who will report to the Chair of the Audit Committee. This position was filled as of 1 March 2021.

CORPORATE GOVERNANCE

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Corporate Governance

As a company with an international focus, the HOCHDORF Group pursues an open and transparent information policy, which forms the basis for trust. Our yardstick is the "Swiss Code of Best Practice for Corporate Governance".

The Articles of Association of HOCHDORF Holding Ltd and the Organisational Regulations of the HOCHDORF Group are also foundational. The following details correspond to the latest guidelines of the SIX Swiss Exchange Directive on Information Relating to Corporate Governance (DCG). Unless otherwise stated, the figures refer to 31 December 2020.

1. Group structure and shareholders

1.1. Group structure as at 31 December 2020

HOCHDORF Holding Ltd is a company under Swiss law with its registered office in Hochdorf (Canton of Lucerne) and, as a holding company, directly or indirectly holds all the companies belonging to the HOCHDORF Group.

The group structure with directly held shareholdings of the HOCHDORF Group (hereinafter referred to as HOCHDORF) is shown in the table below. Apart from HOCHDORF Holding Ltd, which is listed, the scope of consolidation consists exclusively of non-listed subsidiaries. The management organisation of the HOCHDORF Group is independent of the legal structure and the individual companies.

1.2. Significant shareholders

As at 31 December 2020, HOCHDORF Holding Ltd was aware that the following shareholders held more than 3% of the share capital of HOCHDORF Holding Ltd:

Amir Mechria, Zug, Switzerland	20.63%
ZMP Invest AG, Lucerne, Switzerland	17.96%
Bermont Master Fund LP, Grand Cayman (previously: Stichting General Holdings, Amersfoort)	14.50%
Weiss Family and Innovent Holding AG, Wollerau	5.58%

Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group in line with Article 120 of the Financial Market Infrastructure Act (FinMIA).

The disclosure notifications in connection with shareholdings in HOCHDORF Holding Ltd. are published on the electronic publication platform of the SIX Swiss Exchange: www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html.

1.3. Cross-investments

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

2. Capital structure

2.1. Share capital

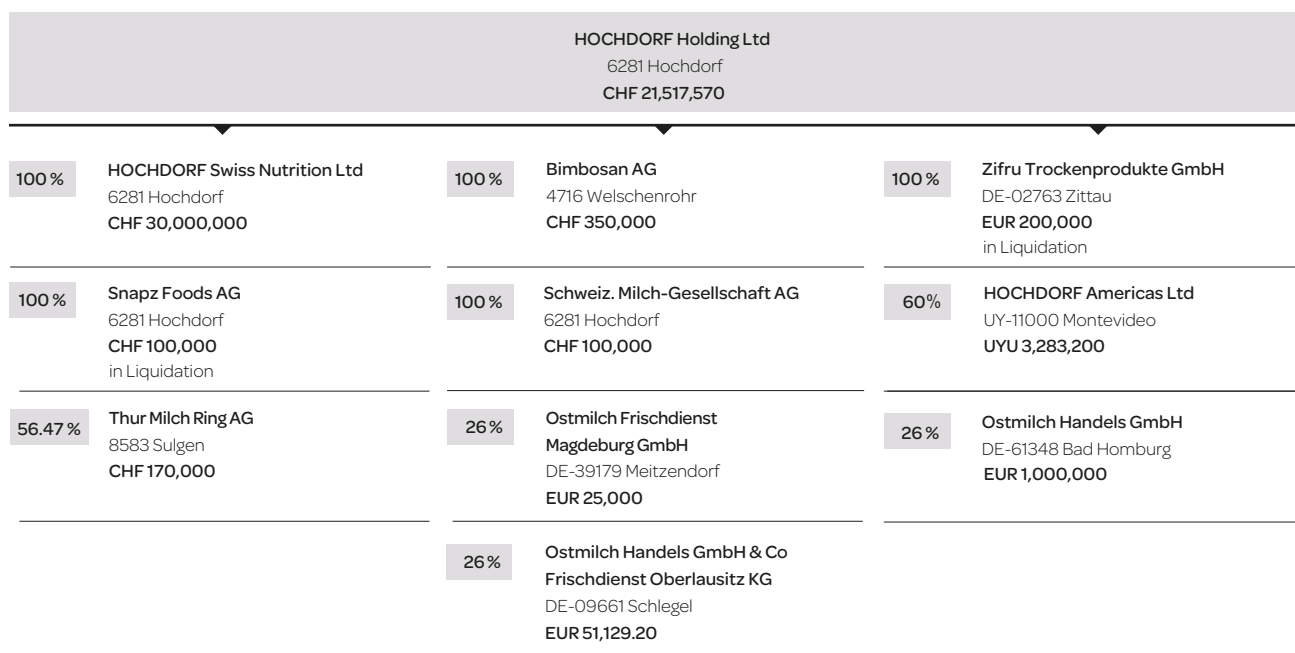
As at 31 December 2020, the share capital amounted to 2,151,757 registered shares (securities number 2 466 652 / ISIN CH0024666528) with a nominal value of CHF 10 each. The share capital is fully paid up. Each share is equivalent to one vote. There are no preferential rights. The company has not issued dividend-rights certificates or profit participation certificates.

2.2. Conditional and approved capital

HOCHDORF Holding Ltd had no conditional share capital as at 31 December 2020 (previous year: CHF 3,937,710 / 393,771 registered shares with a nominal value of CHF 10).

As at 31 December 2020, HOCHDORF Holding Ltd had no approved capital.

GROUP STRUCTURE



2.3. Capital changes

The overview of the capital changes in the reporting years is provided in the notes to the annual financial statements of the HOCHDORF Group (Consolidated statement of changes in equity).

2.4. Restrictions on transferability

HOCHDORF Holding Ltd shares are essentially transferable without restriction. Anyone entered in the shareholder register is a shareholder in relation to the company. The company must be notified of any changes. The entry in the shareholder register requires proof of the acquisition of ownership of the share in their own name and for their own account. If the purchaser is not prepared to make such a declaration then the Board of Directors can decline entry with voting rights. The entry 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 was 3.5% for the entire term from 30 March 2017 to 30 March 2020. The conversion period ran from 3 January 2018 to 13 March 2020. The conversion price was CHF 304.67. A nominal figure of CHF 5,000 authorised the subscription of 16.41 HOCHDORF Holding Ltd registered shares. Fractions were

paid out in cash. As at 30 March 2020, the entire mandatory convertible bond was converted. There are no further convertible bonds issued.

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") (see also note 15 in the notes to the consolidated financial statements of the HOCHDORF Group).

3. Board of Directors

3.1. Members of the Board of Directors

The Board of Directors of HOCHDORF Holding Ltd comprises a minimum of five members. In 2020, these were five members, all of whom were non-executive. The basis for nomination is the fulfilment of a specific requirement profile.

In the reporting year, there were the following changes on the Board of Directors: Bernhard Merki, Markus Kalberer, Walter Locher and Jörg Riboni did not stand for re-election at the 2020 Annual General Meeting. Jürg Oleas, Andreas Herzog, Jean-Philippe Rochat and Ralph Siegl were elected at the 2020 General Meeting.



JÜRIG OLEAS (CHAIR OF THE BOARD OF DIRECTORS)

1957, Swiss citizen; **Profession:** Mechanical engineer ETH; **Place of residence:** Eich, LU; **First election to the Board of Directors:** 2020; **Training/degree:** Mechanical engineer ETH with additional specialisation in law; **Professional background:** 1982 to 1998 employed in various roles at the ABB Group; 1999 to 2001 CEO at Alstom Power Switzerland; 2001 to 2019 employed in various roles at the GEA Group, from 2004 as its CEO; **Professional activity:** Since 2019 self-employed entrepreneur with consulting activities; **Other activities:** Since 2011 Member of the Board of Directors of RUAG Holding AG, Bern; since 2016 Member of the Board of Directors of Lafarge Holcim Ltd, Jona.



MARKUS BÜHLMANN

1962, Swiss citizen; **Profession:** Master farmer; **Place of residence:** Rothenburg, LU; **First election to the Board of Directors:** 2019; **Training/degree:** Master farmer with advanced specialist qualification; **Professional background:** Federal VET diploma in agriculture; advanced specialist master farmer qualification; **Professional activity:** Farmer and owner of an agricultural business with milk production and pig breeding in Rothenburg; **Other activities:** Since 2014, member of the pilot project REDES BLW; since 2015, delegate of the Swiss Farmers' Union (SFU); since 2015 member of the Central Switzerland Milk Producers Regional Committee (Zentralschweizer Milchproduzenten ZMP); since 2015 member of the Executive Board of Central Switzerland Milk Producers (ZMP); since 2018 member of the Board of Directors of ZMP Invest AG and Vice Chair of ZMP.



ANDREAS HERZOG

1957, Swiss citizen; **Profession:** Business economist HWV; **Place of residence:** Laax, GR; **First election to the Board of Directors:** 2020; **Training/degree:** Various postgraduate courses in marketing and financial management at business schools in France, Canada and the USA after graduating in business economics; **Professional background:** 1984 to 1990 employed in various roles at Ciba-Geigy, Basel, Mexico City, Abidjan, Bogota; 1990 to 1995 employed in various roles at SWATCH, Biel, Bad Soden/Fkft a.M.; 1996 to 2001

Vice President Finance at Daniel Swarovski Corporation, Feldmeilen; 2001 to 2002 CFO at Eichhof Holding AG, Lucerne; 2002 to 2019 CFO of the Buhler Group, Uzwil; **Professional activity:** Self-employed since October 2019, including as European partner of RIFF Ventures; **Other activities:** Member of the Advisory Board of CEIBS International Business School Switzerland, Horgen; since 2017 Vice Chair of the Swiss-Chinese Chamber of Commerce; since 2018 Member of the Board of Directors of SeedCapital Invest AG, Sempach; since 2019 Chair of the Board of Directors of Systemcredit AG, Schlieren; since 2019 Member of the Board of Directors of Meyer Burger Technology AG Thun.



RALPH SIEGL

1966, Swiss citizen; **Profession:** lic. rer. publ. HSG, M.Sc. (Econ.); **Place of residence:** Wolfhausen, ZH; **First election to the Board of Directors:** 2020; **Training/degree:** Licentiate in Political Science/International Relations at the University of St. Gallen (HSG) and Master Degree in Economics at the London School of Economics and Political Science; **Professional background:** 1993 to 1995 Research assistant for goods transport at the FDFA/FDEA Integration Office, Bern and Brussels; 1995 to 2006 worked for Nestlé Suisse SA, Vevey and Nestlé Australia Ltd, Sydney, ultimately as Vice President Exports; 2006 to 2016 CEO of Confiseur Läderach AG, Ennenda; 2016 to 2018 Managing Director, Group Management & Operations, Läderach Group, Ennenda; **Professional activity:** Since 2018 independent management consultant and Managing Partner of Experts for Leaders AG, Zurich; **Other activities:** Since 2010 member of the Board of Directors of Gübelin Holding AG, Lucerne; since 2013 member of the Board of Directors (Chair 2016 to 2020) of Bank Linth LLB AG, Uznach; since 2019 Delegate of the Board of Directors of Ylex AG, Aarau; since 2020 chair of Zibatra Beteiligungen AG, Rickenbach SO.

The members of the Board of Directors have not been active in the Group Management of HOCHDORF Holding Ltd or any other group company in the last three business years, nor had they significant business relationships with HOCHDORF Holding Ltd or any other group company.



JEAN-PHILIPPE ROCHAT

1957, Swiss citizen; **Profession:** Lawyer; **Place of residence:** Lausanne, VD; **First election to the Board of Directors:** 2020; **Training/degree:** lic. iur., admitted to the bar of the canton of Vaud; **Professional background:** Studies in law at the University of Lausanne; **Professional activity:** Since 1988 Partner at Kellerhals Carrard; **Other activities:** Various foundation board and board of directors mandates (e.g. Board of Directors of Investissement Foncier SA-La-Foncière, Lausanne; Board of Directors of Vaudoise Assurances Holding SA, Lausanne; Board of Directors of Vetropack Holding SA, Saint-Prex).

3.2. Election and period of office

The members are elected by the Annual General Meeting on individual ballots for a term of one year, expiring at the time of the next ordinary Annual General Meeting. Re-election is possible. The retirement age for members of the Board of Directors is 70. The Annual General Meeting elects the Chair of the Board of Directors from among the members of the Board of Directors as well as the members of the Personnel and Remuneration Committee.

All elections and votes are conducted openly, unless a majority requests a secret ballot.

3.3. Permitted number of other mandates (as members of the Board of Directors or as member of other governing bodies)

In line with Article 15 of the Articles of Association of HOCHDORF Holding Ltd, members of the Board of Directors may hold a maximum of 3 mandates in listed companies within the meaning of Art.727 para. 1 item 2 CO, 5 mandates in non-listed companies within the meaning of Art.727 para. 1 item 2 CO and 10 mandates in a legal entity that does not meet the above criteria.

3.4. Operating procedures for the Board of Directors

The Board of Directors meets at least four times each year and as often as business requires. In the business year 2020, the Board of Directors met for ten full-day regular meetings and twelve extraordinary meetings. All members attended all ordinary meetings. The agenda items for the meetings are set by the Chair. Likewise, any member of the Board of Directors may request in writing the inclusion of items on the agenda.

The CEO and the CFO participate in meetings of the Board of Directors 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. In addition, the Chair of the Board of Directors meets with the CEO for work sessions.

The Board of Directors has a quorum when the majority of its members are present. A valid resolution requires the majority of the votes cast. In the event of a tie, the Chair of the Board of Directors has the deciding vote.

3.5. Committees of the Board of Directors

To support it, the Board of Directors has created an Audit Committee, a Personnel and Remuneration Committee and a Market and Strategy Committee, each consisting of at least two non-executive members. In order to organise its duties efficiently and effectively, the Board of Directors relies on recommendations of these committees.

The chairpersons of the committees report to the Board of Directors at each Board meeting on their activities and results. They also keep minutes of their deliberations and resolutions, which are made available to all members of the Board. In the case of important matters, the Board of Directors is informed immediately after the meeting. The committees are subject to regular performance assessments (self-evaluation).

The following table shows the division of responsibilities of all members of the Board of Directors since the AGM 2020:

	Audit Committee	Market and Strategy Committee	Personnel and Remuneration Committee
Jürg Oleas Chair of the Board of Directors	x	x	x
Andreas Herzog Vice Chair of the Board of Directors	x (Chair)		
Markus Bühlmann Member		x	
Jean-Philippe Rochat Member	x		x (Chair)
Ralph Siegl Member		x (Chair)	x

Audit Committee

The members of the Audit Committee are elected by the Board of Directors for the term of office until the next General Meeting; the Committee constitutes itself. The Board of Directors appoints the Chair.

In 2020, the Audit Committee had three members and met six times. The meetings were attended by representatives of the auditors, the CEO and CFO and, on a case-by-case basis, other members of the Group Management as well as external advisors. All committee members attended all meetings and regularly received the written internal audit reports.

The Audit Committee supports the Board of Directors in its supervision of the Group Management, particularly with regard to financial matters. The main tasks of the Audit Committee are:

- > Monitoring internal and external accounting and financial reporting to shareholders and the public. Assessment of the consolidated and individual financial statements of the Group companies with recommendation to the Board of Directors for submission to the Annual General Meeting

- Assessing the effectiveness and independence of the external auditors and the interaction with the internal auditors. Evaluation and recommendation to the Board of Directors regarding the selection of the external auditors as well as internal audit measures
- Assessment of the functionality of the internal control system of the group of companies, including risk management
- Observation of the development of and compliance with legal and regulatory provisions, in particular accounting standards, auditing principles, to the SIX Swiss Exchange, as well as adherence to internal regulations and principles (compliance)

Personnel and Remuneration Committee

The members of the Personnel and Remuneration Committee shall be elected by the Annual General Meeting for the term of office until the next Annual General Meeting and constitutes itself. The Board of Directors appoints the Chair.

In 2020, the Personnel and Compensation Committee had three members and met twelve times. The meetings were attended by the CEO and the Head of Human Resources on a case-by-case basis. All committee members attended all meetings.

The main tasks of this committee are:

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

Market and Strategy Committee

The members of the Market and Strategy Committee shall be elected by the Board of Directors for the term of office until the next Annual General Meeting and constitutes itself. The Board of Directors appoints the Chair.

In 2020, the Market and Strategy Committee had three members and met six times. The meetings were attended by the CEO and other members of the Group Management. All committee members attended all meetings.

The main tasks of this committee are:

- Reviewing and evaluating the long-term vision, mission and values of the HOCHDORF Group
- Evaluating decisions that are of strategic relevance, particularly those focused on value creation, in order to advise and support the Board of Directors

- Monitoring potential changes in the basic conditions concerning the strategy approved by the Board of Directors
- Reviewing the organisational structure based on the strategy and the staff composition of the Group Management.

3.6. Management and regulation of competences

The Board of Directors is responsible for the overall management of the HOCHDORF Group and its companies. It decides on all matters assigned to it by law, the Articles of Association and the HOCHDORF Group's Organisational Regulations. It has the following inalienable and non-transferable duties:

- Overall management and supervision of the company and the issuing of the necessary regulations and directives (e.g. on the corporate mission statement, corporate policy, corporate planning and corporate strategy)
- Determining the organisation, shareholding and capital structure
- Defining the accounting, financial controlling and budgeting procedures, and the requirements of the internal control system and risk management specific to the needs of the company
- Appointment and dismissal of persons entrusted with managing and representing the company and the issuance of signature regulations
- Supervision of all persons entrusted with the management of the company, specifically with respect to compliance with the law, the Articles of Association and the pertinent regulations and directives
- Preparation of the Annual Report; preparing for the AGM and then implementing its decisions
- Notification of the courts in the event of over-indebtedness
- Passing of resolutions on the proposals to be submitted to the Annual General Meeting regarding the remuneration of the Board of Directors and the Group Management as well as the preparation of the Remuneration Report
- 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, multi-year financial and liquidity planning
- Annual and half-yearly financial statements
- Group organisational chart up to and including the Group Management level
- Compensation policy
- Assessment of the main risks

- › 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

Within the framework of the Articles of Association, the Board of Directors assigns the competences of the persons entrusted with management. The Board of Directors fully delegates all inalienable and non-transferable tasks to the CEO, who has the right to issue directives to the other members of the Group Management. The Board of Directors may – on a case-by-case basis or in connection with its general reservation of competencies – intervene at any time in the duties and competencies of hierarchically subordinate bodies and assume control of the business conducted by these bodies.

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

- › Implementation of the strategic objectives, definition of key operational areas and priorities as well as ensuring the availability of the material and staffing resources required to fulfil these
- › The management, monitoring and coordination of the remaining members of Group Management
- › Convening, preparing and chairing the meetings of the Group Management

3.7. Information and control instruments with regard to Group Management

The division of responsibilities and the type of cooperation between the Board of Directors, the CEO and the Group Management are laid down in the Articles of Association and in the Organisational Regulations of the HOCHDORF Group.

The CEO prepares the budget and the strategic medium-term planning together with the Group Management and submits them to the Board of Directors for approval. The CEO regularly reports on the course of business, risks in the group and personnel changes at management level. The Board of Directors receives all minutes of the Group Man-

agement meetings, which are usually monthly. Extraordinary events are promptly communicated to the members of the Board of Directors via circular. Outside the meetings, each member of the Board of Directors may request information from the members of the Group Management on the course of business and on transactions.

Otherwise, the following additional control systems are in place:

- › Reporting: The Board of Directors receives a monthly report from the Group Management that provides information on the income statement and cash flow statement at Group level and for the legal entities and important investment projects. These figures are compared with the budget and the previous year. A year-end forecast is prepared on a quarterly basis.
- › Risk management process: As part of a formalised process, risks are identified by the Group Management at least once a year and assessed according to financial impact and probability of occurrence. The Group Management provides information on these risks and proposes measures to be implemented, which are approved by the Board of Directors, and monitors their implementation (see also risk report on page 26 of the Annual Report)
- › Internal and external auditors: The internal and external auditors liaise directly with the Audit Committee by attending meetings, approving audit content and receiving all audit reports. The external audit assesses the effectiveness of internal control systems. The creation of a new Senior Internal Auditor position in the 1st quarter of 2021 will further strengthen this control

3.8. Compensation, shareholdings, loans

The relevant information can be found in the Remuneration Report.

4. Group Management

4.1. Members of Group Management

The members of the Group Management are appointed and dismissed by the Board of Directors. In the reporting year, the Group Management was reduced to 3 members. This resulted in the following changes:

Jürgen Brandt	Interim CFO, in post until 29 June 2020
Nanette Haubensak	CFO, in post from 29 June 2020
Christoph Peternell	COO, in post until 30 June 2020
Géza Somogyi	COO, in post from 1 July 2020
Frank Hoogland	Managing Director Baby Care, in post until 31 March 2020



DR PETER PFEILSCHIFTER

1965, German citizen. **Place of residence:** Müswangen LU, Eberbach (Germany) **Position:** CEO since 2019, Managing Director Food Solutions since 2018; Managing Director Baby Care since 2020. **Training/degree:** Studies in economics and business organisation (1992 MBA) and doctorate in economic sciences (1996) at the Bundeswehr University Munich (Germany). **Professional background:** 1995 to 1997 Senior Consultant, Coopers & Lybrand, Essen and Munich (Germany); 1997 to 2003 various leadership roles at ABB Schweiz AG, Baden and Zurich; 2003 to 2010 various leadership roles at Gelita AG, Eberbach (Germany) including Area President Europe, Chief Marketing Officer and Chief Operating Officer; 2010 to 2011 Head of Company 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); 2017 to 2020 Managing Director at Uckermärker Milch GmbH, Prenzlau (Germany). **Other activities:** Chair of the Boards of Directors of all HOCHDORF subsidiaries; Chair of the foundation board of the HOCHDORF Swiss Nutrition Ltd. pension fund; Member of the German Senate of Economy since 2016.



NANETTE HAUBENSAK

1969, German citizen. **Place of residence:** Zurich **Position:** CFO of the HOCHDORF Group since 29 June 2020. **Training/degree:** Degree in Economics at the Freie Universität Berlin (Germany); Master of Arts (European Tourism Management) at the University Savoie Mont Blanc (France) and Bournemouth University (UK); CAS Digital Transformation at the PHW Business School Bern. **Professional background:** 1997 to 2001 Senior Consultant at Management Arthur D. Little, Berlin; 2001 to 2006 M&A Manager and Head of Cooperations & Contract Management at Infineon Technologies AG, Munich (Germany); 2006 to 2019 Head of Corporate Development and Head of Finance & Controlling for the Components Division and subsequently the Machines & Systems Division at the Rieter Group, Winterthur. **Other activities:** Ambassador for the SANNI Foundation



GÉZA SOMOGYI

1978, Hungarian citizen. **Place of residence:** Güttingen **Position:** COO of the HOCHDORF Group since 1 July 2020. **Training/degree:** Food science. **Professional experience:** 2002 to 2013 Development Engineer and Head of Production at Mars Inc. Bokros (Hungary); 2015 to 2020 Head of Production at several plants with additional responsibility for the registration of German plants and formulations as a condition of market entry in China at Danone/Milupa, Fulda (Germany).

4.2. Permitted number of other mandates (as members of the Board of Directors or as member of other governing bodies)

In line with Article 24 of the Articles of Association of HOCHDORF Holding Ltd, members of the Group Management may hold a maximum of 1 mandate in listed companies within the meaning of Art.727 para. 1 item 2 CO, 3 mandates in non-listed companies within the meaning of Art.727 para. 1 item 2 CO and 5 mandates in a legal entity that does not meet the above criteria.

4.3. Compensation, shareholdings, loans

The relevant information can be found in the Remuneration Report.

4.4. Management contracts

There are no management contracts between HOCHDORF Holding Ltd and third parties or third-party companies.

5. Shareholders' rights of co-determination

The shareholders' rights of co-determination are based exclusively on the Swiss Code of Obligations and the Articles of Association.

The Articles of Association can be downloaded from the HOCHDORF website under "Investor Relations":

<https://www.hochdorf.com/en/investors/corporate-governance/>.

5.1. 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. All shareholders can give written authority to a fellow shareholder or appoint an independent proxy to vote at the AGM on their 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.

5.2. 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.

5.3. 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 an extraordinary General Meeting. Personal invitations to the Annual General Meeting are sent out in writing and at least 20 days before the meeting.

5.4. 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 a General Meeting and/or that an item be added to the agenda.

5.5. Entries in the share register

The share register is usually closed ten days prior to the Annual General Meeting. Upon request, the Board of Directors can approve exceptions for late submissions.

6. Change of control and defensive measures

6.1. 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 Art. 125 resp. 135 of the Financial Market Infrastructure Act (FinMIA) with respect to the statutory duty to submit a takeover offer.

6.2. Change-of-control clauses

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

7. Auditor

7.1. Duration of the mandate and term of the Auditor in Charge

The Annual General Meeting elects the auditors for a term of one year. KPMG Ltd, Lucerne, was elected for the first time at the AGM 2020 as auditor of HOCHDORF Holding Ltd for 2020, up to and including the General Assembly 2021. The Auditor in Charge is Thomas Affolter.

7.2. Audit fee

Calculated on an accrual basis, the expenses of the auditor KPMG for the audit of the individual financial statements and the consolidated financial statements for 2020 amounted to approximately TCHF 153.

7.3. Additional fees

In the reporting year, no additional fees were incurred by KPMG Ltd for consulting services.

7.4. 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 2020, the Auditor in Charge attended three meetings of the Audit Committee.

8. Information policy

HOCHDORF maintains open and continuous communication with shareholders, potential investors and other interest groups. Shareholders are informed about HOCHDORF's annual and half-yearly financial statements in letters to shareholders. The aim is to provide 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.

HOCHDORF publishes a comprehensive Annual Report that includes business activities, Corporate Governance, the Remuneration Report and financial reporting that is generated and audited in accordance with Swiss GAAP FER. An Interim Report in accordance with Swiss GAAP FER is also published. Press releases about events relevant to the Stock Exchange, such as acquisitions, minority or majority shareholdings, joint ventures and alliances are published in accordance with the guidelines for ad-hoc publicity

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

- > Investor Relations:
<https://www.hochdorf.com/en/investors>

Shareholders and others who are interested in HOCHDORF can also subscribe to a newsletter that provides ad-hoc notifications and press releases:

- > Newsletter:
<http://www.hochdorf.com/en/investors/newsletter>

Contact for investor relations:

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

The Annual General Meeting will take place on 9 June 2021. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by post.

The next business results (Interim Report 2021) will be published on Monday, 16 August 2021.

REMUNERATION

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Remuneration Report

The report complies with the provisions of the Ordinance of 1 January 2014 against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) and associated provisions of the Swiss Code of Obligations. The basic principles of ERCO are anchored in the Articles of Association of HOCHDORF Holding Ltd (Art. 19 and Art. 23).

Guidelines

HOCHDORF places great importance on recruiting, engaging, motivating, and developing 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. On the one hand, compensation should create incentives that promote the long-term development of the company and increase its value. Furthermore, the system of remuneration should be appropriate and in line with the market in order to be able to recruit qualified employees. All remuneration is paid in cash.

There are no share or option plans or similar shareholding programmes at HOCHDORF.

System of remuneration

Board of Directors

The remuneration for the members of the Board of Directors is based on function and committee work. HOCHDORF Holding Ltd pays the legally required pension and social contributions; the members of the Board of Directors also receive an annual lump-sum expense allowance. The members of the Board of Directors do not receive a variable and performance-related expense allowance. The members of the Board of Directors are not covered by the pension fund. Details are shown in the table "Remuneration of the Board of Directors". The remuneration of the Board of Directors is paid in two to four tranches at the end of each quarter. In the event of premature resignation from the Board of Directors, the compensation is calculated pro rata temporis.

Group Management

The remuneration of the members of the Group Management consists of a fixed monthly base salary and a performance-based variable remuneration. Both are paid out in cash. The variable remuneration results from the achievement of certain performance targets, which consist of financial targets (EBITDA, free cash flow at Group level) as well as qualitative targets. There is an upper limit to the variable remuneration for all members of Group Management that amounts to a maximum of 25% of the fixed compensation. The Board of Directors determines the respective targets as well as the degree of target achievement on the recommendation of the Personnel and Remuneration Committee.

Employment agreements are concluded for an indefinite period of time with a notice period of six months for members of Group Management.

Jurisdiction and procedure for defining remuneration

Competencies

The Board of Directors decides on all compensation-related issues within the compensation framework approved by the General Assembly, in each case at the proposal of the Personnel and Remuneration Committee.

The Personnel and Remuneration Committee shall be composed of at least two members of the Board of Directors. The members are elected by the Annual General Meeting for a term of one year, until the conclusion of the next ordinary Annual General Meeting. The Board of Directors shall appoint the Chair.

The Personnel and Remuneration Committee assists the Board of Directors in setting and reviewing the remuneration policy and guidelines, the performance targets and in preparing the proposals for the attention of the General Meeting regarding the total amounts of remuneration of the members of the Board of Directors and the Group Management. The Chair may invite the CEO and the Head of Human Resources to the meetings as necessary. In the 2020 business year, the Personnel and Remuneration Committee met 12 times; the minutes are available to the Board of Directors.

Competencies and responsibilities of the PRC are defined in the Articles of Association and are regulated in detail in a special set of regulations. The competencies with regard to remuneration are shown in the following table:

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

The approval by the Board of Directors is subject to the approval of the Annual General Meeting, which votes separately on maximum remuneration and consultatively on the remuneration report each year.

Approval model for the 2021 Annual General Meeting

Shareholders will vote on the following remuneration components at the 2021 Annual General Meeting:

- > Board of Directors: Maximum total amount of the fixed remuneration for the period from the 2021 AGM to the AGM 2022
- > Group management: Maximum total amount of the fixed and variable remuneration for the current business year 2021

Remuneration of the Board of Directors

Business year 2020

Remuneration is reported according to the amounts actually paid out in 2020 or, in 2019, according to the amounts paid out and approved.

CHF	Role / committees	Remuneration	Expenses	Social contributions ¹⁾	2020	2019 ²⁾ According to the decision of AGM 2020	2019 ²⁾ According to the proposal to the AGM 2020
Jürg Oleas Start date: 30.06.2020	Chair, Board of Directors Member PRC Member AC Member MSC	71,028	2,500	5,509	79,037		
Andreas Herzog Start date: 30.06.2020	Vice Chair, Board of Directors Chair AC	51,802	2,500	4,018	58,321		
Jean-Philippe Rochat Start date: 30.06.2020	Chair PRC Member AC	47,530	2,500	3,687	53,717		
Ralph Siegl Start date: 30.06.2020	Chair MSC Member PRC	47,500	2,500	3,669	53,669		
Markus Bühlmann Start date: 12.04.2019	Member MSC	37,383	2,500	2,900	42,783 ³⁾	48,246	48,246
Bernhard Merki End date: 30.06.2020	Chair MSC Member PRC				0 ³⁾	123,724	182,244
Jörg Riboni End date: 30.06.2020	Vice Chair, Board of Directors Member PRC Chair AC				0 ³⁾	108,338	182,588
Markus Kalberer End date: 30.06.2020	Member AC				0 ³⁾	71,196	83,196
Dr Walter Locher End date: 30.06.2020	Chair PRC Member AC				0 ³⁾	118,506	118,506
Dr Daniel Suter End date: 12.04.2019	Chair Board of Directors Member AC				0	49,782	49,782
Dr Anton von Weissenfluh End date: 12.04.2019	Vice Chair, Board of Directors Chair PRC				0	27,228	27,228
Michiel de Ruiter End date: 30.09.2019	Chair MSC				0	59,260	59,260
Ulrike Sailer End date: 30.09.2019	Member MSC				0	57,538	57,538
Niklaus Sauter End date: 12.04.2019	Chair AC Member PRC				0	28,066	28,066
Prof. Dr Holger Karl-Herbert Till End date: 12.04.2019	Member MSC				0	22,376	22,376
Reimbursement still to be allocated in accordance with AGM resolution 2019 ²⁾					0	14,260	0
Total		255,244	12,500	19,783	287,527	700,000	859,010

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

¹⁾ Social contributions include employer contributions

²⁾ CHF 859,010 including special expenses were reported in the 2019 Remuneration Report. The Annual General Meeting did not approve the motion to approve the amount of an additional CHF 159,010. Therefore, the remuneration actually paid out is additionally shown here at CHF 700,000 and not the amount detailed in the 2019 Remuneration Report

³⁾ Payment for the period from 1.1.2020 to the General Meeting 2020 still open

Comparison of the remuneration paid out with the amount approved by the AGM

For the completed term of office from AGM 2019 to AGM 2020, a total amount CHF 700,000 was approved by the AGM of 12 April 2019.

Period	Amount paid out (in CHF)	Amount approved (in CHF)
AGM 2019 (14.04.2019) – 31.12.2019	489,502	
01.01.2020 – AGM 2020 (30.06.2020)	0	At disposal: 210,498
Total	489,502	700,000 Used: 71%

The remuneration paid to the members of the Board of Directors for the past term of office from the AGM 2019 to the AGM 2020 is 71% of the approved amount and thus within the limit. However, not all remuneration for the period 1 January 2020 to AGM 2020 had been paid as at 31 December 2020.

For the current term of office from AGM 2020 to AGM 2021, a total amount of CHF 600,000 was approved by the AGM of 30 June 2020. As of 31.12.2020, 48% of this amount had been used.

Period	Amount paid out (in CHF)	Amount approved (in CHF)
AGM 2020 (30.06.2020) – 31.12.2020	287,527	
01.01.2021 – AGM 2021	0	At disposal: 312,473
Total	287,527	600,000 Used: 48%

Request to the AGM 2021

Approval of the total sum of the fixed remuneration for the Board of Directors to a maximum of CHF 600,000 for the period from the AGM 2021 to the AGM 2022.

Remuneration of the CEO and Group Management

The variable remuneration (bonus) of the Group Management is reported on an accrual basis at the end of the year, as the performance-related salary components are only paid out in the following year. In the case of a premature resignation or new appointments, the remuneration is included pro rata temporis up to the time of the resignation or the assumption of the corresponding function.

In CHF	Basic salary ¹⁾	Variable remuneration ²⁾	Social contributions, including employee pension ³⁾	Other contributions ⁴⁾	Total
Remuneration to Group Management 2020					
Group Management Total	1,213,586	149,819	249,766	78,133	1,691,304
Thereof highest remuneration ⁵⁾	434,000	102,944	140,589	24,000	701,533
Remuneration to Group Management 2019					
Group Management Total	1,533,042	100,000	353,809	117,000	2,103,851
Thereof highest remuneration ⁶⁾	456,004	0	118,296	21,000	595,300

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

²⁾ No variable remuneration paid as a result of negative results in 2019. The amount listed here is a special payment to Dr Peter Pfeilschifter for the additional role he assumed as interim CEO

³⁾ Pension and social contributions include employer contributions to social insurance schemes and pension funds

⁴⁾ Private shares for company vehicles, vehicle payments, company loyalty gifts

⁵⁾ Dr Peter Pfeilschifter, CEO

⁶⁾ The remuneration for the CEO 2019 only shows the remuneration for the previous CEO Dr Thomas Eisenring as the highest paid. The remuneration for Dr Peter Pfeilschifter as interim CEO is fully included in the total Group Management cost

The Group Management was reduced to three in 2020 (previous year: 6) and changed as follows:

- > Jürgen Brandt: interim CFO, in post until 29 June 2020
- > Nanette Haubensak: CFO, in post from 29 June 2020
- > Christoph Peterzell: COO, in post until 30 June 2020
- > Géza Somogyi: COO, in post from 1 July 2020
- > Frank Hoogland: Managing Director Baby Care, in post until 31 March 2020

Comparison of the reported remuneration with the amount approved by the Annual General Meeting

For the 2020 reporting year, a total amount of CHF 2,000,000 was approved by the Annual General Meeting on 30 June 2020 for the 2020 business year. This total amount will be exceeded.

Request to the AGM 2021

Approval of the total sum of the fixed and variable remuneration for the Group Management to a maximum of CHF 2,000,000 for the 2021 business year.

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 for severance payments. None were paid out in the reporting year.

Payments to former members of Group Management and the Board of Directors

The personnel changes in the Board of Directors and Group Management in the reporting period are listed above. The remuneration owed to former members of the Board of Directors and the Group Management in the reporting period has been accrued accordingly.

Benefits

No additional benefits were paid to members of the Board of Directors or the Group Management or related persons or to former members of governing bodies.

Loans and credits

No loans or credits were granted or paid out to related persons or members of governing bodies by HOCHDORF Holding or other group companies. Furthermore, no loans or credits are outstanding.

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		31.12.2020	31.12.2019
Jürg Oleas	Chair; as of 30.06.2020	0	n. a.
Andreas Herzog	Vice Chair; as of 30.06.2020	0	n. a.
Ralph Siegl	as of 30.06.2020	100	n. a.
Markus Bühlmann	as of 12.04.2019	0	0
Jean-Philippe Rochat	as of 30.06.2020	0	n. a.
Bernhard Merki	Chair; until 30.06.2020	n. a.	5
Jörg Riboni	Vice Chair; until 30.06.2020	n. a.	0
Markus Kalberer	until 30.06.2020	n. a.	10
Dr Walter Locher	until 30.06.2020	n. a.	1,713
Total		100	1,728
Group Management		31.12.2020	31.12.2019
Dr Peter Pfeilschifter	CEO; Managing Director Dairy Ingredients; as of 01.01.2020	257	257
Frank Hoogland	Managing Director Baby Care; until 21.03.2020	n. a.	482
Jürgen Brandt	CFO; until 31.07.2020	n. a.	0
Nanette Haubensak	CFO; as of 29.06.2020	0	n. a.
Christoph Peternell	COO; until 30.06.2020	n. a.	658
Géza Somogyi	COO; as of 01.07.2020	0	n. a.
Total Group Management		257	1,397
Total Board of Directors and Group Management		357	3,125
as % of total number of shares		0.02%	0.18%



Report of the Statutory Auditor

To the General Meeting of HOCHDORF Holding Ltd., Hochdorf

We have audited the remuneration report of HOCHDORF Holding Ltd. for the year ended 31 December 2020. 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 “Remuneration of the Board of Directors” and “Remuneration of the CEO and Group Management” on pages 40 to 45 of the remuneration report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2020 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.



Other matter

The remuneration report of HOCHDORF Holding Ltd. for the year ended 31 December 2019 was audited by another auditor who expressed an unmodified opinion on this report on 18 March 2020.

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Joel Wachter
Licensed Audit Expert

Lucerne, 9 April 2021

KPMG AG, Pilatusstrasse 41, CH-6003 Lucerne

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ANNUAL FINANCIAL STATEMENT

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CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER

	Explanations in the notes	2020 TCHF	in %	2019 TCHF Adjusted ¹⁾	in %
Assets					
Cash and cash equivalents	1)	12,411	3.8%	20,201	4.4%
Securities	2)	231	0.1%	231	0.1%
Trade accounts receivables	3)	23,995	7.4%	31,930	7.0%
Trade accounts receivables from related parties	3)	32,129	9.9%	10,139	2.2%
Trade accounts receivables from associated companies	3)	115	0.0%	7,119	1.6%
Other receivables	3)	2,768	0.9%	3,238	0.7%
Other receivables from related parties	3)	40,602	12.5%	64,191	14.1%
Inventories	4)	29,235	9.0%	41,620	9.1%
Accrued income	5)	3,383	1.0%	4,027	0.9%
Current assets		144,869	44.7%	182,695	40.1%
Property and plant		62,900	19.4%	89,985	19.8%
Other fixed assets		107,515	33.2%	168,974	37.1%
Total fixed assets	6)	170,415	52.6%	258,959	56.8%
Investments in associated companies	32)	2,846	0.9%	2,496	0.5%
Financial assets	7)	4,174	1.3%	9,979	2.2%
Intangible assets	8)	1,533	0.5%	1,442	0.3%
Non-current assets		178,969	55.3%	272,876	59.9%
Total assets		323,838	100.0%	455,572	100.0%
Liabilities					
Trade payables	9)	22,057	6.8%	37,110	8.1%
Trade payables to related parties	9)	0	0.0%	3,599	0.8%
Trade payables to associated companies	9)	304	0.1%	672	0.1%
Short-term financial liabilities	10)	0	0.0%	12,407	2.7%
Other liabilities	11)	4,141	1.3%	5,153	1.1%
Other liabilities to related parties	11)	0	0.0%	163	0.0%
Accrued liabilities and deferred income	12)	4,135	1.3%	4,527	1.0%
Short-term provisions	14)	768	0.2%	4,903	1.1%
Current liabilities		31,406	9.7%	68,533	15.0%
Non-current financial liabilities	13)	100,000	30.9%	112,497	24.7%
Non-current financial liabilities to related parties	13)	0	0.0%	0	0.0%
Non-current financial liabilities to associated companies	13)	0	0.0%	870	0.2%
Non-current provisions	14)	11,885	3.7%	15,856	3.5%
Non-current liabilities		111,885	34.5%	129,223	28.4%
Share capital	15)	21,518	6.6%	17,584	3.9%
Treasury shares	25)	-7,105	-2.2%	-7,105	-1.6%
Capital reserves	15)	164,490	50.6%	179,724	39.5%
Mandatory convertible bond	15)	0	0.0%	110,773	24.3%
Hybrid capital	15)	116,437	36.0%	116,437	25.6%
Profit reserves		-44,745	-13.8%	84,740	18.6%
Net result (shareholder)		-70,133	-21.4%	-239,200	-52.5%
Equity excl. minority interests		180,461	55.7%	262,951	57.7%
Minority interests		87	0.0%	-5,135	-1.1%
Shareholders' equity		180,548	55.8%	257,816	56.6%
Total liabilities and equity		323,838	100.0%	455,572	100.0%

1) Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

CONSOLIDATED INCOME STATEMENT

	Explanations in the notes	2020		2019	
		TCHF	in %	Adjusted ¹⁾	in %
		1,120 – 31.12.20		1,119 – 31.12.19	
Net sales	16)	306,199	100.4%	456,797	103.9%
Other operating income	17)	994	0.3%	1,493	0.3%
Change in inventories of semi-finished and finished products		-2,192	-0.7%	-18,635	-4.2%
Production revenue		305,001	100.0%	439,655	100.0%
Cost of materials and goods		-210,668	-69.1%	-377,853	-85.9%
Gross operating profit		94,332	30.9%	61,802	14.1%
Personnel expenses	18)	-39,722	-13.0%	-50,757	-11.5%
Other operating expenses	19)	-40,741	-13.4%	-85,754	-19.5%
Total operating expenses		-80,463	-26.4%	-136,512	-31.0%
EBITDA		13,869	4.5%	-74,709	-17.0%
Depreciation of fixed assets	6)	-82,228	-27.0%	-47,891	-10.9%
Amortisation of intangible assets	8)	-684	-0.2%	-3,708	-0.8%
Profit from sale of subsidiaries	27)	1,170	0.4%	-139,001	-31.6%
EBIT		-67,872	-22.3%	-265,309	-60.3%
Income from associates and joint ventures	20)	350	0.1%	354	0.1%
Financial result	20)	-5,092	-1.7%	-8,675	-2.0%
Ordinary result		-72,615	-23.8%	-273,631	-62.2%
Non-operating result	21)	5	0.0%	11	0.0%
Extraordinary result	22)	1	0.0%	-343	-0.1%
Earnings before taxes		-72,608	-23.8%	-273,962	-62.3%
Income taxes	23)	2,335	0.8%	2,583	0.6%
Net result		-70,274	-23.0%	-271,378	-61.7%
Attributable to:					
Net result current year (shareholder)		-70,133	-23.0%	-239,200	-54.4%
Net result current year (minority interests)		-141	0.0%	-32,178	-7.3%
Net result		-70,274	-23.0%	-271,378	-61.7%
Earnings per share (basic)	24)	-34.60		-164.55	
Earnings per share (diluted)	24)	-34.60		-164.55	

1) Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

CONSOLIDATED CASH FLOW STATEMENT

	Explanations in the notes	2020 TCHF	2019 TCHF Adjusted ¹⁾
		1.120 – 31.12.20	1.119 – 31.12.19
Net profit		-70,274	-271,378
Depreciation of fixed assets and amortisation of intangible assets	6) 8)	82,911	51,599
Profit from sale of subsidiaries		-1,170	139,001
Currency effect on sale of subsidiaries		252	302
Net interest expense		5,494	6,951
Other non-cash adjustments		2,335	4,966
Change in provisions	14)	-8,107	33,486
Accounting losses (profits) from sales of fixed assets		5	341
Income from associates and joint ventures		-350	-89
Cash flow from operating activities before changes in working capital		11,097	-34,821
As % of net sales revenue		3.62%	-7.62%
Change in accounts receivables	3)	-15,205	2,333
Change in other receivables and accrued income	3) 5)	-8,337	22,684
Change in inventories	4)	3,899	19,401
Change in trade payables	9)	-5,503	-17,577
Change in other liabilities and deferred income	11) 12)	2,723	-7,450
Change in net current assets		-22,422	19,391
Cash flow from operating activities		-11,325	-15,430
As % of net sales revenue		-3.70%	-3.38%
Investments in fixed assets		-2,785	-8,449
Divestments of fixed assets		25	-91
Investments in intangible assets		-793	-186
Investments in/divestment of long-term financial assets		0	2,909
Net cash flow from the purchase (-) / sale (+) of subsidiaries	3) 27)	32,218	37,541
Interest and dividends received		0	11
Cash flow from investing activities		28,665	31,736
Free cash flow	34)	17,339	16,306
As % of net sales revenue		5.66%	3.57%
Change in short-term financial liabilities		-7,015	8,309
Change in long-term financial liabilities		-7,169	-18,709
Change in minority interests in capital and profit		-38	-17
Change in mandatory convertible bond ²⁾		-1,195	644
Change in capital of subsidiaries		0	38
Sale (purchase) own shares net cash flow		0	235
Interest paid		-9,501	-17,319
Cash flow from financing activities		-24,919	-26,818

Currency translation	-210	-71
Net change in cash and cash equivalents	-7,790	-10,583
Cash and cash equivalents at 1 January	20,201	30,784
Cash and cash equivalents at 31 December	12,411	20,201

1) Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the annual financial statements of HOCHDORF Group "Principles of consolidation" and note 15) / separate presentation of cash and cash equivalents and securities in 2019

2) Cash drain due to the emissions fee to be paid

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Capital reserves	Hybrid capital	Profit reserves	Accumulated currency translation differences	Total excl. minority shares	Minority shares	Total incl. minority shares
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2018 (as reported)	14,348 ¹⁾	-7,351	284,369	107,589	-144,877 ²⁾	-747	253,331	27,516	280,847
Hybrid bond restatement ⁵⁾				8,848			8,848		8,848
Equity as at 31.12.2018 (restated)	14,348 ¹⁾	-7,351	284,369	116,437	-144,877 ²⁾	-747	262,179	27,516	289,695
Change in scope of consolidation					238,764	308	239,072	-523	238,549
Goodwill/badwill from sales of subsidiaries					-13		-13		-13
Conversion mandatory convertible bond	3,236		94,395				97,631		97,631
Mandatory convertible bond			-88,163		-8,824		-96,987		-96,987
Sale of treasury shares		245	-105				141		141
Currency translation differences						128	128	51	179
Net profit					-239,200		-239,200	-32,178	-271,378
Equity as at 31.12.2019 (restated)	17,584 ¹⁾	-7,105	290,497	116,437	-154,151 ²⁾	-310	262,951	-5,135	257,816
Change in scope of consolidation ⁶⁾					-7,115		-7,115	5,303	-1,813
Goodwill/bad will from sales of subsidiaries					-4,255		-4,255		-4,255
Allocation of capital contributions to free reserves ³⁾			-130,000		130,000		0		0
Conversion mandatory convertible bond	3,934		114,766				118,700		118,700
Mandatory convertible bond ⁴⁾			-110,773		-9,122		-119,895		-119,895
Hybrid bond ⁵⁾					79		79		79
Currency translation differences						129	129	61	190
Net profit					-70,133		-70,133	-141	-70,274
Equity as at 31.12.2020	21,518 ¹⁾	-7,105	164,490	116,437	-114,697 ²⁾	-181	180,461	87	180,548

¹⁾ 31.12.2020: 2,151,757 registered shares at nominal CHF 10.00; each share corresponds to one vote; the maximum entry limit in the share register is 15% of the votes; 31.12.2019: 1,758,369 registered shares; 31.12.2018: 1,434,760 registered shares

²⁾ Of which non-distributable legal reserves TCHF 10,619 (2019 TCHF 10,172/2018 TCHF 10,172). This includes deferred interest under the hybrid bond of TCHF 1,626 as at 31.12.2020 (PY: 0)

³⁾ As per resolution at the AGM 2020

⁴⁾ The convertible bond has been fully converted as of 31.03.2020 (see also note 15 in the notes to the consolidated financial statements of the HOCHDORF Group)

⁵⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

⁶⁾ Sale of Uckermärker Milch GmbH and Marbacher Ölmühle GmbH; increase of share Snapz Food AG

Shareholders >3%	31.12.2020	31.12.2019	31.12.18
Amir Mechria, Zug	20.63 %	18.34 %	<3.00 %
ZMP Invest AG, Lucerne	17.96 %	12.23 %	14.51 %
Bermont Master Fund, Grand Cayman (Previous year: Stichting General Holdings, MG Amersfoort Netherlands)	14.50 %	17.81 %	4.23 %
Weiss Family and Innovent Holding AG, Wollerau ¹⁾	5.58 %	4.65 %	5.35 %

¹⁾ The value as at 31.12.2019 does not include 2.18% shares from the mandatory convertible bond (conversion on 30.03.2020)

Contingent capital

The Group has no contingent capital.

In the previous year, contingent capital was issued for the mandatory convertible bond (393,771 registered shares with a nominal value of CHF 10).

Changes

See explanations in the notes to the consolidated financial statements of the HOCHDORF Group.

Notes to the 2020 consolidated financial statements of the HOCHDORF Group

Principles of consolidation

General information

The Board of Directors of HOCHDORF Holding Ltd approved these consolidated financial statements on 9 April 2021. They are subject to approval by the Annual General Meeting.

Consolidation principles

Basic accounting principles

The consolidated financial statements are based on the annual financial statements of the Group companies as at 31 December 2020, prepared in accordance with uniform principles. The Group's financial statements are prepared in accordance with all the guidelines of the Swiss GAAP FER (Accounting and Reporting Recommendations) and the provisions of Swiss law.

The valuation basis is formed by acquisition or production costs or current values. The income statement is presented in accordance with the overall cost procedure. The consolidated annual financial statements are based on business values and reflect the actual status of the asset, financial and revenue position. The financial statements are prepared on the assumption of the continuation of operational activities.

The consolidated financial statements are prepared in Swiss francs (CHF). There has been a change in accounting policy in the valuation of the hybrid bond in equity, which is explained below.

Change in the accounting policy for hybrid bond

HOCHDORF undertook a reassessment of the accounting for the hybrid bond in 2020 and has come to the conclusion that only the payments to be made contractually, which HOCHDORF cannot prevent, should be included in the debt component. This concerns the interest payments until 21 June 2020, the interest date after conversion of the mandatory convertible bond. After this date, HOCHDORF can defer the payment of interest. Originally, based on an assessment that interest payments after this date are also likely due to the dividend policy, the interest until June 2023 (the first call date of the hybrid bond) was also allocated to the debt component. In HOCHDORF's assessment, the adjusted principle leads to a better informative value for the accounting of a hybrid bond as in the present case.

The change in the accounting principle was made retroactively as of 1 January 2019, so that the previous period was adjusted (restatement).

Adjusted accounting policy hybrid-bond

The hybrid bond is a perpetual subordinated bond. The hybrid bond has its first call date after five-and-a-half years (21.06.2023). 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% + 5-year mid swap rate with floor at zero).

The interest payments under the hybrid bond are in principle only due after the occurrence of a mandatory payment event, in particular after a resolution of the general meeting to pay a dividend. If no such event exists and no voluntary interest payments are made, the interest obligation is deferred until the occurrence of a mandatory event. The future obligations are only recognised as liabilities at the time of the occurrence of a corresponding condition (e.g. dividend resolution by the general meeting).

At the time of initial recognition, the hybrid bond was split into an equity and a debt component. The debt component included all payments that were contractually owed and which HOCHDORF could therefore not avoid. These included the interest payments to be made up to the interest date after conversion of the mandatory convertible bond on 30 March 2020 (mandatory events). The liability was discounted. The remaining part of the hybrid bond was allocated to equity after deduction of the issuing costs.

The discounted interest obligations were shown under short-term and long-term financial liabilities in accordance with their maturities. The interest payable was offset against the corresponding financial liabilities. Only the accrued interest of the relevant business year was then recognised in interest expenses.

Financial implications of the adjustment of consolidation and measurement principles

The amount for the interest obligation for the period from the conversion of the mandatory convertible bond to the first call date for the hybrid bond of TCHF 8,848 was reclassified to equity as at 1 January 2019. As at 31 December 2020, there is no longer a liability from the hybrid bond. In detail, the following effects on the previous year's values resulted (in TCHF):

Balance sheet as at	31.12.18 As reported	Adjustment	31.12.18 Restated
Other short-term financial liabilities	3,063	47	3,110
Short-term financial liabilities	14,379	47	14,426
Total short-term external capital	111,248	47	111,295
Other long-term financial liabilities	11,975	-8,895	3,079
Long-term financial liabilities	157,711	-8,895	148,816
Total long-term external capital	183,136	-8,895	174,240
Hybrid capital	107,589	8,848	116,437
Shareholders' equity	280,847	8,848	289,695
Total liabilities and equity	575,231	0	575,231

Balance sheet as at	31.12.19 As reported	Adjustment	31.12.19 Adjusted
Other short-term financial liabilities	3,033	77	3,110
Short-term financial liabilities	12,330	77	12,407
Other financial liabilities	5,151	2	5,153
Total short-term external capital	68,454	79	68,533
Other long-term financial liabilities	8,942	-8,942	0
Long-term financial liabilities	121,439	-8,942	112,497
Total long-term external capital	138,165	-8,942	129,223
Hybrid capital	107,589	8,848	116,437
Results for current year	-239,215	14	-239,200
Shareholders' equity	248,953	8,863	257,816
Total liabilities and equity	455,572	0	455,572

Income statement	2019 As reported	Adjustment	2019 Restated
Financial result	-8,692	16,495	-8,675
Taxes	2,585	-2,029	2,583
Net profit	-271,393	14	-271,378
Attributable to:			
Parent company shareholders	-39,215	14	-239,200
Minority interests	-32,178	0	-32,178

Consolidation basis and methods

The consolidated annual financial statements of the HOCHDORF Group comprise the annual financial statements of HOCHDORF Holding Ltd holding company as well as all subsidiaries in which HOCHDORF Holding Ltd has a capital-relevant and vote-relevant majority or where control over the financial and business policy is exercised through contractual agreement. Assets and liabilities as well as expenses and revenue are recorded at 100% for the fully consolidated companies. Minority interests in the consolidated shareholders' equity and in the business results are shown separately. All intercompany transactions and relationships between consolidated companies are eliminated. Intercompany profits on such transactions are eliminated. 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.

Shareholdings in joint enterprises or shareholdings with 20% to 50% of the voting rights are accounted for using the equity method.

Capital consolidation

The capital consolidation is carried out according to the purchase method. Companies acquired during the year are consolidated from the date on which control is transferred. The net assets acquired in an acquisition are revalued at current values as at the acquisition date. The difference between the purchase price and the pro rata revalued net assets is offset against equity as goodwill/bad will.

The acquisition of minority interests is also accounted for using the purchase method. Here, a purchase price allocation is waived. Accordingly, the difference between the purchase price and the pro rata equity capital is offset against equity capital as goodwill or bad will in accordance with Swiss GAAP FER.

Companies sold during the year are excluded from the consolidated financial statements from the date on which control is transferred. 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/bad will, is recognised as a gain or loss on the income statement. Minority interests in subsidiaries with negative equity are also recognised proportionately with this negative equity.

Foreign currency translation

The foreign currency transactions and items included in the individual financial statements of the consolidated companies are converted as follows: foreign currency transactions are translated into the book currency at the exchange rate of the transaction date (current rate). At the end of the year, monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss at the exchange rate prevailing on the balance sheet date. Foreign currency gains and losses from the valuation of intercompany loans of an equity nature are recognised in equity.

The consolidated financial statements are presented in Swiss francs. Assets and liabilities of Group companies with different currencies are translated at year-end rates (closing rates), equity at historical rates, and the income statement and cash flow statement at average rates for the year. The conversion differences incurred are recognised in equity without affecting net income.

The accumulated translation differences for 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.

	Average exchange rates		End-of-year exchange rates	
	2020	2019	31.12.2020	31.12.2019
1 EUR	1.072	1.112	1.081	1.087
1 USD	0.935	0.992	0.883	0.968
1 GBP	1.211	n.a.	1.208	n.a.
1 UYU	0.022	0.028	0.0208	0.025

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.

Valuation methods

Cash and cash equivalents

Cash and cash equivalents include cash and deposits on postal and bank accounts, as well as short-term time deposits with a remaining time of less than three months. They are balanced at nominal values.

Securities

Securities are measured at the market value on the balance sheet date. Unlisted securities are stated at cost less any value impairments. The securities are not of a participating nature and are short-term.

Accounts receivables from third parties

Accounts receivables from ordinary business activities include short-term receivables with a remaining term of up to one year. Accounts receivables are valued at nominal value. The operational default risks are taken into account by means of individual and general value adjustments. 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.

Receivables	General 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

Accounts receivables from related and associated parties

The operational default risk from receivables from deliveries and services to related and associated parties are taken into account through individual value adjustments.

Inventories

Internally produced goods are valued at manufacturing cost. Any lower net market value is taken into account. Raw materials and supplies as well as merchandise are valued at the lower of cost or net market value.

Depending on the inventory turnover, value adjustments are taken into account. The value adjustments calculated in this way are adjusted accordingly for normal saleability or longer shelf life.

Property/plant and other fixed assets

Fixed assets are measured at the acquisition cost less economically necessary depreciation and permanent value impairments. Own work is only capitalised if it is clearly identifiable and the costs can be reliably determined, and if it provides the company with a measurable benefit over several years. Depreciation is calculated on a straight-line basis over the useful life of the asset as shown in the table below.

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

Financial assets

Financial assets include long-term held securities, deferred tax assets as well as assets from pension funds, employer contribution reserves and long-term loans from third parties. Securities and loans are measured at purchase value less the economically necessary value adjustments. Employer contribution reserves are recognised at nominal value.

Intangible assets

Intangible assets include software, patents, licences and brand values. These are accounted for at acquisition costs. They are depreciated on a straight-line basis over their useful economic life of 5-10 years and impaired if there are indications of impairment.

Impairment

The recoverability of non-current assets is assessed at each balance sheet date. If there are indications of impairment, the recoverable amount is calculated (impairment test). The achievable value is the higher value of net market value utility value. If the book value exceeds the recoverable amount, an adjustment is made to the income statement through unscheduled depreciation.

For cash-generating units, an impairment test is performed annually based on value-in-use calculations, in case impairment indication is existing. These are based on the cash flows for the next five years as a rule and the extrapolated values from the sixth year onwards. The figures used are part of the multi-year plan approved by the Board of Directors.

Liabilities

Liabilities are measured at the nominal amount.

Provisions

Provisions are recognised when there is a reasonable probable obligation as a result of a past event, the amount and/or timing of which is uncertain but can be estimated. The measurement of the provision is based on the estimate of the cash outflow to settle the obligation.

Deferred taxes

The accrual of deferred income tax is based on a balance sheet approach and generally takes into account all future income tax effects. The calculation of deferred income taxes to be accrued annually is based on the future tax rate applicable to the respective taxable entity as at the balance sheet date. Deferred income tax assets and deferred income tax liabilities are offset if they relate to the same taxable entity and are levied by the same taxation authority. Deferred tax assets on temporary differences and tax losses carried forward are only capitalised if it is probable that they can be offset against future taxable profits.

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/mandatory convertible bond

The mandatory convertible bond is a bond that does not give the bondholder any voting rights. The issuing costs are recognised in equity via the capital reserves. The obligations for the interest payable are discounted from the issue date at a market 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. The mandatory convertible bond was converted on 30 March 2020.

Equity/goodwill

The option described in Swiss GAAP FER 30 of offsetting goodwill/bad will against equity is exercised. The disclosure on the theoretical capitalisation of goodwill is shown in the notes to the consolidated income statement.

Employee pension plan

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

The pension liabilities of HOCHDORF Holding Ltd and its subsidiary HOCHDORF Swiss Nutrition Ltd are governed by the legally independent pension fund of the HOCHDORF Group. The pension fund is a defined contribution plan. 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. Existing employer contribution reserves are recognised as an asset under assets (financial assets).

Net sales revenue from deliveries and services

Net sales include revenues from the sale of goods and services. Revenue from the sale of goods is recognised in the income statement when the risks and rewards of ownership of the products are transferred to the buyer. Revenue from services is recognised in the period in which the services are rendered. Sales deductions such as discounts, credit notes, rebates and sales taxes are deducted in the reported net sales.

Research and development

In-house 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

The probability and amount of contingent liabilities are assessed and evaluated on the balance sheet date and disclosed in the notes.

Transactions with related parties

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

Notes to the consolidated balance statement

Changes to the consolidation basis

In 2020, the following changes were made to the scope of consolidation of the HOCHDORF Group and led to corresponding changes in the balance sheet items (see also note 27 "Sale of companies").

Consolidated companies	Location	Currency		Capital in thousands 31.12.2020	Capital share 31.12.2020	Capital share 31.12.2019
Marbacher Ölmühle GmbH	Marbach, Germany	EUR	Sold as of 31.12.2020	2,000	0%	100%
Uckermärker Milch GmbH	Prenzlau, Germany	EUR	Sold as of 28.02.2020	10,000	0%	60%
Snapz Foods USA Inc.; liquidated	Delaware, USA	USD	Deconsolidated as of 30.06.2020	50	0%	65%

For further information on the companies included in the scope of consolidation, see note 32.

1. Cash and cash equivalents

TCHF	2020	2019 Adjusted
Cash	10	17
Post account	193	608
Bank account	12,208	19,576
Total	12,411	20,201

Cash and cash equivalents are recognised at nominal value. In 2019, securities (see note 2) were also reported under cash and cash equivalents.

2. Securities

TCHF	2020	2019 Adjusted
Securities	231	231
Total	231	231

In 2019 these items in cash and cash equivalents were shown as short-term investments.

3. Accounts receivables

TCHF	2020	2019
Accounts receivables from third parties	35,750	44,264
Minus provision for doubtful accounts	-11,755	-12,334
Short-term receivables from related parties	32,129	10,139
Accounts receivables from associated companies	115	7,118
Other receivables	2,768	3,238
Other receivables from related parties	40,602	64,191
Total	99,609	116,616

The accounts receivables from third parties do not contain any concentration of credit risk due to customer diversification. The bad debt item includes the value adjustment made in 2019 for a receivable from a customer that will still be carried under accounts receivables from third parties in 2020.

Accounts receivables from related parties include outstanding invoices from deliveries of goods to Pharmalys Laboratories SA. The other accounts receivables mainly include receivables from government agencies (value added tax, Directorate General of Customs) and from social welfare organisations.

Other receivables from related parties mainly include the outstanding payments of Pharmalys Invest Holding AG due to the sale of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l. Payment dates for the payments in connection with the sale are 15 May 2021 (CHF 10 million) and 30 September 2021 (CHF 24.2 million). In 2020, a purchase price payment of CHF 30 million was made.

With regard to the recoverability of the accounts receivables and the other receivables from related parties, see the implementation of the going concern principle in note 33.

4. Inventories

TCHF	2020	2019
Raw/auxiliary/operating materials	5,517	9,836
Finished and semi-finished products	26,322	46,376
Value adjustments for inventories	-2,605	-14,592
Total	29,235	41,620

Value adjustment in 2020 due to a damage claim and from sales price devaluations for skimmed milk powder. In the previous year 2019, extraordinary value adjustments due to the effects of a technical damage claim and customer-specific value adjustments were shown in this item.

5. Accrued income

TCHF	2020	2019
Total	3,383	4,027

The accrued income is comprised of revenues not yet received as well as costs paid in advance. Significant items are receivables from the Directorate General of Customs due to milk export transactions and receivables for CO₂ refunds.

6. Fixed assets

Depreciation includes an impairment of CHF 65.7 million on the buildings and property, plant and equipment of the relatively new spray tower plant 9 and the associated canning line. We have taken this as a measure to reflect the low utilisation of these facilities as well as the high risk in the Baby Care business with regard to its customer portfolio.

TCHF	Property and plant	Equipment, warehouse equipment, fixed equipment	Machines, production appliances, furnishings	Office equipment, IT systems, communication, equipment	Vehicles	Current investment projects (assets under construction)	Total
Net accounting value 01.01.2019	112,657	56,890	109,252	8,924	787	13,336	301,846
Purchase value							
As at 01.01.2019	201,976	93,150	206,559	25,348	2,106	13,336	542,475
Change in scope of consolidation ²⁾	-1,242	-264	-1,601	-24	-17	-19	-3,167
Additions	0	21	0	45	44	8,339	8,449
Disposals	-80	-477	-2,093	-215	-166	0	-3,031
Reclassification ¹⁾	1,398	5,916	9,138	979	79	-17,510	0
Currency differences	-1,708	-353	-1,146	-43	-10	-26	-3,286
As at 31.12.2019	200,344	97,993	210,857	26,090	2,036	4,120	541,440
Accumulated depreciation							
As at 01.01.2019	89,319	36,260	97,307	16,424	1,319	0	240,629
Change in scope of consolidation ²⁾	-259	-22	-337	-13	-17	0	-648
Disposals	-41	-407	-2,004	-173	-156	0	-2,781
Depreciation	3,499	4,331	7,040	2,024	164	0	17,058
Value impairments ⁴⁾	19,049	2,703	8,490	512	80	0	30,834
Currency differences	-1,208	-311	-1,049	-35	-8	0	-2,611
As at 31.12.2019	110,359	42,554	109,447	18,739	1,382	0	282,481
Net accounting value as at 31.12.2019	89,985	55,439	101,410	7,351	654	4,120	258,959
Purchase value							
As at 01.01.2020	200,344	97,993	210,857	26,090	2,036	4,120	541,440
Change in scope of consolidation ³⁾	-44,527	-9,638	-29,356	-1,190	-231	-99	-85,042
Additions	0	0	0	0	0	3,718	3,718
Disposals	-94	-876	-2,021	-404	-164	0	-3,559
Reclassification ¹⁾	319	2,897	1,123	947	84	-5,369	0
Currency differences	-927	-193	-639	-25	-4	-1	-1,789
As at 31.12.2020	155,115	90,183	179,964	25,418	1,721	2,369	454,769
Accumulated depreciation							
As at 01.01.2020	110,359	42,554	109,447	18,739	1,382	0	282,481
Change in scope of consolidation ³⁾	-36,863	-8,839	-28,150	-1,165	-216	0	-75,233
Disposals	-34	-929	-1,969	-393	-148	0	-3,472
Depreciation	2,738	4,479	6,500	1,701	167	0	15,585
Value impairments ⁵⁾	16,822	13,329	35,146	1,246	99	0	66,643
Currency differences	-808	-188	-626	-25	-4	0	-1,651
As at 31.12.2020	92,214	50,407	120,348	20,104	1,281	0	284,354
Net accounting value 31.12.2020	62,901	39,776	59,616	5,314	440	2,369	170,415

- 1) 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
- 2) In the context of the purchase of the holding in Thur Milch Ring AG and the sale of the holding in HOCHDORF South Africa Pty (Ltd), Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l.
- 3) The changes to the consolidation basis reflect the sale of Marbacher Ölmühle GmbH and Uckermärker Milch GmbH
- 4) Residual depreciation and dismantling costs of plants that were decommissioned in 2020 in HOCHDORF as well as impairments on tangible assets for companies that are to be sold or liquidated
- 5) Due to the low capacity utilisation and to take into account the high risk in the Baby Care business, we carried out an impairment of property, plant and other fixed assets in connection with the spray tower plant 9 and canning line 2 at the Sulgen site (total CHF 65.8 million). Further impairment of real estate/property of Zifru Trockenprodukte GmbH (TCHF 311; company in liquidation) as well as BIMBOSAN AG due to the closure of the Welschenrohr site (TCHF 524; equipment no longer needed at the site as production was integrated in Hochdorf)

Of which assets subject to financial leasing

TCHF	Total	Open instalments
Net accounting value 01.01.2020	7,382	1,475
Purchase value		
As at 01.01.2020	9,554	1,475
Additions	0	0
Disposals incl. instalments	-9,549	-1,470
Currency differences	-5	-5
As at 31.12.2020	0	0
Accumulated depreciation		
As at 01.01.2020	2,172	0
Depreciation	248	0
Disposals	-2,420	0
Currency differences	0	0
As at 31.12.2020	0	0
Net accounting value as at 31.12.2020	0	0

The assets under assets subject to financial leasing in 2019 mostly belonged to Uckermärker Milch GmbH and have ceased to exist as a result of the sale in 2020.

7. Financial assets

TCHF	2020	2019
Securities	37	37
Loans	150	150
Value adjustments for loans	-69	-42
Deferred tax assets	0	2,763
Assets from employer contribution reserves	4,056	7,071
Total	4,174	9,979

The deferred tax assets have ceased to exist as a result of the sale of Uckermärker Milch GmbH. In the case of HOCHDORF Holding Ltd and HOCHDORF Swiss Nutrition Ltd, no deferred tax assets were formed on the loss carried forward, as it is not certain that they can be offset against future taxable profits within the next few years.

Taxable losses carried forward after expiration

TCHF	2020	2019
Taxable losses carried forward after expiration TCHF		
2024 and later Cantonal tax	340,371	97,005
Total	340,371	97,005

TCHF	2020	2019
Taxable losses carried forward after expiration TCHF		
2024 and later Federal tax	330,591	304,517
Total	330,591	304,517

If the deferred tax assets were fully capitalised, including the losses carried forward at HOCHDORF Holding Ltd and Hochdorf Swiss Nutrition Ltd, there would be a deferred tax asset of TCHF 25,217 for federal tax (PY: TCHF 32,673) and a deferred tax asset of TCHF 17,975 for cantonal tax (PY: TCHF 15,053).

The increase in taxable losses carried forward in the 2019 comparison at the level of cantonal taxes is based on the decision that HOCHDORF Holding Ltd will retroactively waive the holding company privilege as early as 01.01.2019 and will be subject to ordinary taxation. As a result, the loss generated in 2019 can also be carried forward for cantonal taxes. Written confirmation from the tax authorities is still pending.

Assets from employer contribution reserves

TCHF Employer contribution reserve	Nominal value 31.12.2020	Renounced use 31.12.2020	Balance sheet 31.12.2020	Creation per 2020	Balance sheet 31.12.2019	Result of the committee of works and staff councils in personal expenses		Result of the committee of works and staff councils in financial revenues	
						2020	2019	2020	2019
HGR pension fund	4,056	0	4,056	0	7,071	-3,109	-1,365	97	177

The posting of interest from employer contribution reserves through pension plans appears as a credit in the financial revenues. Interest of 1.7% (PY: 2.25%) was calculated on the employer contribution reserves in 2020. Since 01.05.2019, employer contributions are no longer paid to the pension fund, but offset against the employer reserves. In 2020, the possibility of offsetting additional employee contributions against the employer's reserves has also been used on the basis of the Covid-19 regulation (03-08/2020, 11-12/2020).

TCHF Economic benefit/economic liability and pension expenditure	Credit/debit balance 31.12.2020	Economic share of the organisation		Change from the previous year	Contributions accrued for the period	Pension expenditure in personnel expenses	
		31.12.2020	31.12.2019			2020	2019
HGR pension fund	14,606	0	0	0	3,109	3,109	2,204

8. Intangible assets

TCHF	Software	Brands	Others intangible assets	Current projects	Total
Net accounting value as at 01.01.2019	1,670	2,699	404	219	4,992
Purchase value					
As at 01.01.2019	3,896	3,520	700	219	8,335
Additions	272	0	0	-86	186
Disposals	-30	0	0	0	-30
Reclassifications	88	0	0	-88	0
Currency differences	-30	0	0	0	-30
As at 31.12.2019	4,196	3,520	700	45	8,461
Accumulated depreciation					
As at 01.01.2019	2,226	821	296	0	3,343
Disposals	-4	0	0	0	-4
Depreciation	605	352	140	0	1,097
Value impairments	264	2,347	0	0	2,611
Currency differences	-28	0	0	0	-28
As at 31.12.2019	3,063	3,520	436	0	7,019
Net accounting value as at 31.12.2019	1,133	0	264	45	1,442
Purchase value					
As at 01.01.2020	4,196	3,520	700	45	8,461
Change in scope of consolidation ¹⁾	-809	0	0	-16	-825
Additions	179	0	0	623	803
Disposals	-23	0	0	0	-23
Reclassifications	216	0	0	-216	0
Currency differences	-15	0	0	0	-16
As at 31.12.2020	3,743	3,520	700	437	8,400
Accumulated depreciation					
As at 01.01.2020	3,063	3,520	436	0	7,019
Change in scope of consolidation ¹⁾	-798	0	0	0	-798
Disposals	-23	0	0	0	-23
Depreciation	518	0	140	0	658
Value impairments	26	0	0	0	26
Currency translation difference	-15	0	0	0	-15
As at 31.12.2020	2,771	3,520	576	0	6,867
Net accounting value as at 31.12.2020	973	0	124	437	1,533

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

¹⁾ Sold companies Uckermärker Milch GmbH and Marbacher Ölmühle GmbH

9. Trade payables

TCHF	2020	2019
To third parties	22,057	37,110
To related parties	0	3,599
To associated companies	304	672
Total	22,361	41,381

10. Short-term financial liabilities

TCHF	2020	2019 Adjusted
Other financial liabilities ¹⁾	0	5,184
Leasing liabilities	0	1,223
Bank loans ²⁾	0	6,000
Total	0	12,407

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15; debt component of the hybrid bond reclassified to equity)

²⁾ The short-term tranche of the syndicated loan was repaid in full in 2020

11. Other financial liabilities

TCHF	2020	2019
To related parties	0	163
Other short-term liabilities ¹⁾	1,705	2,615
Employee overtime	138	127
Employee holiday credits	498	466
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc.)	303	469
Government bodies (taxes, source taxes, value added taxes)	1,448	1,473
Total	4,141	5,313

¹⁾ The largest items under "Other short-term liabilities" are advance payments from customers and the payments made in 2021 to the BOM (Swiss Milk Sector Organisation) for the fund contributions from milk suppliers collected in December

12. Accrued liabilities and deferred income

TCHF	2020	2019
Total	4,135	4,527

The accrued liabilities and deferred income mainly comprises accruals in the context of reimbursements and commissions ("Schoggj law") as well as invoices not yet received for goods receipts and other supplier services (power, water, transport).

13. Long-term financial liabilities

TCHF	2020	2019 Adjusted
Loans ¹⁾	0	375
Leasing liabilities	0	252
Bank loans	100,000	111,870
To associated companies	0	870
Other financial liabilities ²⁾	0	0
Total	100,000	113,367

¹⁾ Loan commitment to a former shareholder of Marbacher Ölmühle GmbH has ceased to exist as a result of the sale

²⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15; debt component of the hybrid bond reclassified to equity)

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

Position	Book value TCHF	Due date	Interest rate
Syndicated loan ¹⁾	100,000	08.11.2023	from 2.75% to 5.50%
Total	100,000		

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

¹⁾ The interest rate depends on the debt factor

Syndicated loan

On 23 October 2019, the banking consortium extended and adjusted the syndicated loan for HOCHDORF Holding Ltd. The loan has a term until September 2023. Partial repayments have reduced the limit to CHF 120 million. As before, key financial covenants are the equity ratio and the debt factor. The debt factor is considered to be breached if the debt factor as of 30 June 2021 is greater than 5.0x and as of 31 December 2021 is greater than 4.0x. For the equity ratio, a ratio of 40% applies as of 30 June 2020. In the event of a breach of the covenants, the credit agreement can be terminated extraordinarily (with immediate maturity of all liabilities). The credit agreement only allows dividend payments if certain debt factors are met.

14. Provisions

TCHF Development of provisions	Short-term provisions	Damages claims	Various provisions	Deferred tax provisions	Total
As at 31.12.2018	0	0	5	18,559	18,564
Change in scope of consolidation ¹⁾	0	0	-30,979	-237	-31,216
Provisions made ²⁾	4,903	0	32,929	3,653	41,485
Provision used	0	0	0	0	0
Provision released	0	0	-5	-7,868	-7,873
Currency differences	0	0	0	-201	-201
As at 31.12.2019	4,903	0	1,950	13,906	20,759
Change in scope of consolidation ³⁾	0	0	0	-58	-58
Provisions made ⁴⁾	350	0	0	8	358
Provision used ⁵⁾	-4,566	0	-419	0	-4,985
Provision released	0	0	0	-3,422	-3,422
Reclassification	81	0	-81	0	0
Currency differences	0	0	0	0	0
As at 31.12.2020	768	0	1,450	10,435	12,653

¹⁾ In the context of the purchase of the holding in Thur Milch Ring AG and the sale of the holding in HOCHDORF South Africa Pty (Ltd), Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l.

²⁾ Provisions formed in connection with the restructuring and for outstanding legal transactions

³⁾ In connection with the sale of the Marbacher Olmühle GmbH and Uckermärker Milch GmbH

⁴⁾ In connection with impending legal disputes

⁵⁾ In connection with settlement of a claim

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

The share capital of HOCHDORF Holding Ltd of CHF 21,517,570 is higher by a nominal CHF 3,933,800 as of 31 December 2020 compared to 2019. The increase results from the end of the term of the mandatory convertible bond and thus the final conversion as of 30 March 2020 of a nominal value of CHF 119,895,000. It is divided into 2,151,757 registered shares at a nominal value of CHF 10 each (2019: 1,758,369 registered shares). The conditional capital (CHF 3,937,710 as at 31 December 2019) was used for this purpose.

The mandatory convertible bond is classified for the most part as equity. It was divided into an equity component and a liabilities component. The liabilities component includes all future bond interest payments. The effective interest payments are taken from the corresponding financial liabilities and are not charged to the income statement. Only the accrued interest of the relevant business year was recognised in interest costs. The mandatory convertible bond was finally converted on 30.03.2020.

In 2017 (payment 21.12) HOCHDORF Holding Ltd issued a public hybrid bond with a nominal value 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 of 2.50% + 5-year mid swap rate with floor at zero). Securities number 39,164,798; ISIN CH0391647986.

The interest payments under the hybrid bond are basically optional and HOCHDORF Holding Ltd can choose whether to make the interest payments annually or defer them. Certain interest payments on the hybrid bond were linked to the interest payments on the mandatory convertible bond for the term of the mandatory convertible bond, i.e. if interest was paid on the mandatory convertible bond, interest also had to be paid on the hybrid bond. The remaining interest payments become payable upon the occurrence of certain events, e.g. when HOCHDORF Holding Ltd declares and pays dividends on its shares.

The hybrid bond is treated as a compound financial instrument and consists of a debt and an equity component. The debt component includes all contractually owed and unavoidable payments. This includes the interest payments until 21.06.2020, the interest date after conversion of the mandatory convertible bond. The liability was discounted to the issue date with an interest rate of 1%. This interest rate corresponded to the syndicated loan's margin at the time. The effective interest payments were taken from the corresponding financial liabilities and were not charged to the income statement. Only the accrued interest of the relevant business year was recognised in interest costs. As at 31 December 2020, there was no longer a liability.

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). In 2020, the income statement items include the values of Uckermärker GmbH until 28 February 2020 and Marbacher Ölmühle GmbH until 31 December 2020. For the sake of comparability, it should also be noted that in 2019 the companies Pharmalys Laboratories SA, Pharmalys Tunisie S.a.r.l. and Pharmalys Africa S.a.r.l. were sold as of 6 December 2019 and were thus included in the majority of the consolidated results in the 2019 income statement.

16. Net sales from goods and services

Net sales in 2019 included provisions for possible losses of receivables and for claims totalling CHF 48.1 million. The actual net sales of products sold is higher by this amount. No significant impairments were made in 2020.

By product group

TCHF	2020		2019	
Milk products/cream	78,305	25.6%	193,110	42.3%
Milk powder	113,425	37.0%	174,111	38.1%
Infant formula	97,026	31.7%	71,222	15.6%
Specialities	11,231	3.7%	13,293	2.9%
Bakery/confectionary goods	1,014	0.3%	4,201	0.9%
Other products/services	5,198	1.7%	860	0.2%
Total	306,199	100%	456,797	100%

The Baby Care division includes the infant formula product group and products from other groups.

By region

TCHF	2020		2019	
Switzerland/Liechtenstein	162,433	53.0%	196,193	42.9%
Europe	69,212	22.6%	200,528	43.9%
Asia	6,815	2.2%	8,974	1.9%
Middle East/Africa ¹⁾	60,572	19.8%	46,215	10.1%
USA/Canada	7	0.0%	474	0.1%
Americas (others) ²⁾	7,160	2.3%	4,413	1.1%
Total	306,199	100.00%	456,797	100.00%

¹⁾ Net revenues with Pharmalys Laboratories SA are also reported in 2020 under Middle East/Africa for better comparability

²⁾ The remaining turnover comprises deliveries to customers who export the goods and where the destination country is not separately recorded

By division

The Board of Directors of HOCHDORF Holding decided in 2019 to discontinue the Cereals & Ingredients division (see also notes 27 and 28). The associated companies were either sold or liquidation proceedings were initiated. Remaining products and net sales are organisationally assigned to the Food Solutions division as of 1 January 2020 (e.g. Marbacher Ölmühle GmbH).

TCHF	2020		2019	
Food Solutions (formerly: Dairy Ingredients)	206,708	67.5%	360,008	78.8%
Baby Care	99,490	32.5%	72,836	16.0%
Cereals & Ingredients	0	0%	23,953	5.2%
Total	306,199	100.00%	456,797	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 FER 31/8. The Swiss milk market is small and tightly knit with few key companies and providers. The supplier side (milk producers) is organised within several milk producer organisations. On the processing side, the market is dominated by the cheese dairies 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	2020	2019
Various other operating income	994	1,493
Total	994	1,493

Various other operating income includes the rental of storage space as well as insurance benefits and, in the previous year, the private share of employees for the use of vehicles as major items.

18. Personnel expenses

TCHF	2020	2019
Wages	-32,373	-41,025
Social contributions	-5,144	-6,455
Incidental wage costs	-2,205	-3,277
Total	-39,722	-50,757

As at 31.12.2020, the HOCHDORF Group reported a headcount of 391 (31.12.2019: 618).

19. Other operating expenses

TCHF	2020	2019
Facilities expenditure (incl. warehouse rents)	-3,685	-5,151
Maintenance, repairs	-6,406	-8,930
Vehicle and transport costs	-5,118	-8,584
Insurance, fees, duties	-1,635	-2,103
Energy and disposal expenditure	-10,869	-18,440
Administration and IT expenditure	-5,202	-8,601
Advertising costs incl. commissions to customers	-3,928	-28,064
Various other operating costs	-3,896	-5,881
Total	-40,741	-85,754

20. Financial result and income from associates and joint ventures

TCHF	2020	2019 Adjusted
Income from associates and joint ventures	350	354
Interests from cash and cash equivalents	0	11
Revenues from holdings	158	-286
Revenues from financial assets	418	667
Interest revenue ¹⁾	1,300	0
Exchange rate gains	2,589	7,662
Value adjustment from financial assets	0	1,223
Total financial income	4,464	9,277
Interest costs ²⁾	-5,494	-6,951
Value adjustment from financial assets ³⁾	-1,037	-264
Deposit fees, fees	-455	-1,078
Exchange rate losses	-2,570	-9,658
Total financial costs	-9,556	-17,952
Total	-5,092	-8,675

¹⁾ The interest income in 2020 mainly includes interest from Pharmalys Laboratories AG and Pharmalys Invest Holding AG

²⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

³⁾ The negative increase in the value adjustment from financial assets is a net effect of the (negative) elimination and the (positive) reversal of value adjustments made in 2019 for loan waivers

21. Non-operating result

TCHF	2020	2019
Revenue from external properties	5	11
Total	5	11

The non-operating income consists of expenses and rental income from non-operating properties.

22. Extraordinary result

TCHF	2020	2019
Profit from the disposal of operating fixed assets	0	-343
Extraordinary result	1	0
Total	1	-343

23. Taxes

TCHF	2020	2019 Adjusted
Current income taxes		
Taxes on operating result ¹⁾	-180	-439
Deferred income taxes		
Net change in deferred tax assets and liabilities	2,515	3,023
Total	2,335	2,583

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

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). For HOCHDORF Swiss Nutrition, with its operating site in the canton of Thurgau, this is 13.23%. For the subsidiary Bimbosan in Welschenrohr, 16.49% is applied. Companies with their registered office exclusively in the Canton of Lucerne are subject to 12.62%. Subsidiaries in Germany and Uruguay are subject to 25%.

In the case of HOCHDORF Holding Ltd and HOCHDORF Swiss Nutrition Ltd, no deferred tax assets were formed on the loss carried forward, as it is not certain that they can be offset against future taxable profits within the next years. If the possible deferred tax assets for HOCHDORF Holding Ltd (at a tax rate of 8.5%) and for HOCHDORF Swiss Nutrition Ltd were offset, and taking into account the maximum possible capitalisation for the other companies, the weighted average tax rate would be 13.20%. In the previous year, this was stated at 11.39%.

For further information on the impact of the ordinary taxation after the loss of the holding privilege, see note 7.

Capital taxes are reported separately in operating costs.

24. Earnings per share

Earnings (shareholders) per share, basic

	2020	2019 Adjusted
Weighted average shares outstanding	2,026,872	1,453,643
Earnings current year (shareholder); TCHF	-70,133	-239,200
Earnings per share (shareholder) in CHF, basic	-34.60	-164.55

¹⁾ Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15)

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 (29,738 shares) 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 393,388 new registered shares from the conversion of the convertible bond on 31.03.2020.

Earnings per share (shareholder), diluted

	2020	2019 Adjusted
Weighted average shares outstanding, basic	2,026,872	1,453,643
Dilution effect of convertible bond ¹⁾	0	393,524
Weighted average shares outstanding, diluted	2,026,872	1,847,167
Earnings current year (shareholder); TCHF	-70,133	-239,200
Interest on convertible bond, in TCHF ²⁾	0	112
12% tax effect; TCHF (interest on convertible bond*0.12/1.12)	0	-12
Earnings current year (shareholder), diluted; TCHF ³⁾	-70,133	-239,100
Earnings per share (shareholder) diluted (in CHF)	-34.60	-164.55

¹⁾ 2019 calculation: the dilution was calculated from the mandatory convertible bond 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 ran from 03.01.2018 up to and including 13.03.2020. As of 31.12.2019 a nominal amount of CHF 119,895,000 was still outstanding after the conversions amounting to CHF 98,595,000. 2020 calculation: the total mandatory convertible bond was converted on 30.03.2020

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

³⁾ There is no dilution effect due to the negative company result

25. Treasury shares

Transactions with own shares

	2020	2019
Balance as at 1 January in units	29,738	30,952
At the average price per share of CHF	238.93	237.49
Purchases in units	0	0
At the average price per share of CHF	0	0
Sales/allocations in units	0	-1,214
At an average price per share of CHF	0	115.79
Balance as at 31 December in units	29,738	29,738
At an average price per share of CHF	238.93	238.93

As at 31.12.2020, HOCHDORF Holding Ltd held 29,738 own shares. No transactions with own shares took place in 2020. There is no share-based compensation for either the Board of Directors or the Group Management. In 2019, 1,214 shares with a value of CHF 115.79 were issued to the Group Management.

HOCHDORF Group pension fund

	2020 Number	2019 Number
Registered shares of HOCHDORF Holding Ltd	18,000	18,000
Total	18,000	18,000

26. Further notes

LEASING DEBTS

TCHF	2020	2019
Unrecognised leasing debts	218	359
Total	218	359

The unrecognised leasing debts are for the leasing contracts for transport, cars and operating equipment.

LIABILITIES FROM PENSION FUND

TCHF	2020	2019
HOCHDORF Group pension fund	121	163
Total	121	163

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.

27. Sale of companies

As of 28 February 2020, HOCHDORF Holding Ltd sold Uckermärker Milch GmbH (60% shareholding, Germany) in connection with the agreed streamlining of the Food Solutions division (formerly Dairy Ingredients). The buyer was Ostmilch Handels GmbH, in which HOCHDORF Holding holds a minority share of 26% (see note 32 to the consolidated financial statements of the HOCHDORF Group). Marbacher Ölmühle (100% shareholding, Germany) was also sold as of 31 December 2020 due to the discontinuation of the Cereals & Ingredients business division.

The Group companies sold in the reporting year had the following key balance sheet figures at the time of sale:

TCHF	Uckermärker Milch GmbH, Germany	Marbacher Ölmühle GmbH, Germany
Time of disposal	28.02.2020	31.12.2020
Share capital	60%	100%
Cash and cash equivalents	286	97
Accounts receivables	7,790	213
Inventories	7,661	619
Other current assets	3,000	2
Non-current assets	6,702	4,946
Trade payables	-12,949	-268
Other short-term liabilities	-2,613	-30
Non-current financial liabilities	-6,962	-1,401
Net assets	2,915	4,179

The acquisition of Uckermärker Milch GmbH in 2014 resulted in a bad will of TCHF 5,053 in the purchase price allocation, which was offset against equity. The sale resulted in a positive value adjustment totalling TCHF 3,304, of which TCHF 3,732 was posted through EBIT (item Profit from sale of subsidiaries) and TCHF -428 was posted through exchange rate losses. In 2020, the company generated net sales of TCHF 25,797 with an EBIT of TCHF -208 prior to its sale.

The acquisition of Marbacher Ölmühle GmbH in 2014 resulted in goodwill of TCHF 798 in the purchase price allocation, which was offset against equity. The sale resulted in a negative value adjustment of TCHF 2,397, of which TCHF 2,562 was posted through EBIT (item Profit from sale of subsidiaries) and TCHF 165 was posted as an exchange rate profit (financial result). The company achieved net sales of TCHF 4,229 in 2020 until the sale, with EBIT of TCHF -499.

28. Companies in liquidation

The Board of Directors of HOCHDORF Holding decided to discontinue the Cereals & Ingredients division in the second half of 2019. This consisted of the companies Marbacher Ölmühle GmbH, Zifru Trockenprodukte GmbH, Snapz Foods AG and Snapz Foods USA Inc. as well as wheat germ processing at HOCHDORF Swiss Nutrition Ltd. In 2019 the above listed companies realised net sales of CHF 24.7 Mio. and a negative EBIT of CHF -10.8 Mio. As no buyers were found for Zifru Trockenprodukte GmbH (Germany), Snapz Foods AG (Switzerland) and Snapz Foods USA Inc., liquidation proceedings were opened in May 2020. There were no longer any significant business activities at Snapz Food AG and Snapz Food USA in 2020. Snapz Food USA was deconsolidated as of 30 June 2020.

At Zifru Trockenprodukte GmbH, inventories were sold off in the second half of 2020 and buyers were sought by the liquidator for the remaining facilities, land and buildings. In 2020, the company generated net sales of TCHF 1,274 with an EBIT of TCHF -874.

29. Goodwill offset against equity

PURCHASE COSTS

TCHF	2020	2019 Adjusted
As at 1 January	30,792	269,850
Sale of Pharmalys (revival of goodwill)	0	-239,071
Acquisition of Thur Milch Ring AG, Switzerland	0	13
Disposal of Marbacher Ölmühle GmbH, Germany	-799	0
Disposal of Uckermärker Milch GmbH, Germany	5,054	0
As at 31 December	35,047	30,792

In 2014, Uckermärker Milch GmbH and Ostmilch Handels GmbH were acquired together. For all acquired companies, there was a total net badwill of TCHF 1,084 (badwill for Uckermärker Milch GmbH of TCHF 5,054 and goodwill for Ostmilch GmbH of TCHF 3,969), which had not been reflected in the shadow account since the acquisition in 2014. This was corrected as part of the divestment of Uckermärker Milch GmbH, and the previous year's figures were also adjusted accordingly (including calculation of depreciation). The net accounting value as at 01.01.2019 and the theoretical amortisation of goodwill decreased by TCHF -1,103 and TCHF -1,084 respectively, while the net accounting value as at 31.12.2019 is unchanged.

ACCUMULATED AMORTISATION TCHF

TCHF	2020	2019 Adjusted
As at 1 January	-11,598	-86,840
Additions	-5,755	-5,777
Disposals	-4,255	81,019
As at 31 December	-21,608	-11,598
Theoretical goodwill as at 31 December	13,439	19,194

This is shown based on a linear depreciation over 5 years (pro rata). The statement of changes in shareholders' equity shows goodwill as a net position. The effects of theoretical capitalisation on the income statement and balance sheet are shown in the following tables.

TCHF	2020	2019 Adjusted
Net profit	-70,274	-271,378
Depreciation of goodwill	-5,755	-5,777
Depreciation of goodwill correction from sale of Pharmalys	0	81,020
Theoretical net profit	-76,029	-277,155
TCHF	2020	2019 Adjusted
Equity	180,548	257,816
Theoretical goodwill	13,439	19,194
Theoretical equity	193,987	277,010

Previous year's figures adjusted due to the change in the valuation principles for the hybrid bond (see also the notes to the consolidated financial statements of the HOCHDORF Group "Principles of consolidation" and note 15).

30. Transactions with related parties 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 2019 and 2020. These cover deliveries of goods and raw materials as well as services to and from related companies. This is shown separately in the corresponding balance sheet items.

TRANSACTIONS WITH ASSOCIATED COMPANIES

TCHF	2020	2019
Net revenue	20,759	123,976
Cost of goods	-7,802	-54,601
Service costs	-1	-543
Operating expenses	0	-1
Financial revenue	143	761
Financial expenditure	-195	-1,098

Associated: Ostmilch Handels GmbH, Uckermärker Milch GmbH (sale of directly held 60% share in Ostmilch Handels GmbH; see also note 32 of the notes to the consolidated financial statements of the HOCHDORF Group).

TRANSACTIONS WITH RELATED COMPANIES

TCHF	2020	2019
Net revenue	40,631	130,069
Service revenue	315	445
Operating expenses	0	-15,769
Financial revenue	9,348	3,522
Financial expenditure	-1,445	-3,814

Related parties: Pharmalys Laboratories AG, Pharmalys Invest Holding (see also note 33 to the consolidated financial statements of the HOCHDORF Group on the recoverability of outstanding receivables from Pharmalys companies).

31. Contingent liabilities

The HOCHDORF Group becomes involved in legal disputes as part of its normal business. Although the outcome cannot be conclusively assessed at the present time, HOCHDORF assumes that it will not have any significant negative impact on its business activities or financial position. Anticipated payments to be made are set aside. There were no material contingent liabilities as at the balance sheet date.

32. Overview of the Group companies and associated companies

Consolidated companies	Location	Function	Currency	Capital in thousands 31.12.2020	Capital share 31.12.2020	Capital share 31.12.2019
HOCHDORF Holding Ltd	Hochdorf, Switzerland	Holding	CHF	21,517	100%	100%
HOCHDORF Swiss Nutrition Ltd	Hochdorf, Switzerland	Production	CHF	30,000	100%	100%
Schweiz. Milch-Gesellschaft Ltd	Hochdorf, Switzerland	Shell company	CHF	100	100%	100%
Marbacher Ölmühle GmbH ¹⁾	Marbach, Germany	Production and trade	EUR	0	0%	100%
Uckermärker Milch GmbH ²⁾	Prenzlau, Germany	Production	EUR	0	0%	60%
HOCHDORF Americas Ltd	Montevideo, Uruguay	Trade	UYU	3,283	60%	60%
Snapz Foods AG ³⁾	Hochdorf, Switzerland	Trade	CHF	100	100%	65%
Zifru Trockenprodukte GmbH ³⁾	Zittau, Germany	Production	EUR	200	100%	100%
Bimbosan AG	Welschenrohr, Switzerland	Production and trade	CHF	350	100%	100%
Snapz Foods USA Inc. ⁴⁾	Delaware, USA	Trade	USD	0	0%	65%
Thur Milch Ring AG	Sulgen, Switzerland	Trade	CHF	170	56.47%	56.47%

¹⁾ Sold as of 31.12.2020

²⁾ Sold as of 28.02.2020

³⁾ In Liquidation; due to non-payment of the pro rata capital by the minority shareholder, the shares reverted to HOCHDORF Holding

⁴⁾ In Liquidation; deconsolidated as of 30.06.2020

Associated companies	Location	Function	Currency	Capital in thousands 31.12.2020	Capital share 31.12.2020	Capital share 31.12.2019
Ostmilch Handels GmbH	Bad Homburg, Germany	Trade	EUR	1,000	26%	26%
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel, Germany	Logistics	EUR	51	26%	26%
Ostmilch Frischdienst Magdeburg GmbH	Meitzendorf, Germany	Trade	EUR	25	26%	26%
Uckermärker Milch GmbH ¹⁾	Prenzlau, Germany	Production	EUR	10,000	26%	60%

¹⁾ Indirectly associated; Uckermärker Milch GmbH has been 100% owned by Ostmilch Handels GmbH since 28.02.2020

33. Assessment as a going concern

Uncertainties at 31.12.2020 and for the 2021 and 2022 business year

There are material uncertainties (listed below) which, depending on how the situation develops, may cast significant doubt about the Group's ability to continue as a going concern. The Board of Directors and the Group Management are of the opinion that, despite these uncertainties, HOCHDORF's ability to continue as a going concern is not currently in question.

- Recoverability of receivables from Pharmalys Group companies (as at 31 December 2020: CHF 32.1 million from delivery business and CHF 40.6 million outstanding purchase price instalments from the sale of shares in the Pharmalys company, repayment of loan outstanding and interest)
- Securing solvency due to (partial) payment defaults and postponements by Pharmalys companies
- Compliance with the financial covenants from the credit agreement

The Board of Directors is currently focusing on developing financial strategy options, which may include capital measures to further stabilise the balance sheet and the liquidity position and to support sustainable corporate growth.

Based on the assumptions made, the Board of Directors sees realistic opportunities for the implementation of the 2021 budget approved by the Board of Directors and the 2025 medium-term plan with projected sales volume and revenue increases and assumed financing from own cash flow in the divisions of Baby Care and Food Solutions (formerly Dairy Ingredients). To this end, we have already initiated strategic and operational measures in 2020 to create the basis for sustainable growth. In 2020, these included enhanced project development with new customers, two initial deliveries to Vietnam and the launch of new projects in Southeast Asia, the development of new products (including goat milk, vegan bisoja, pre-term formula), integration of Bimbosan, strengthening of the Baby Care sales team and expansion of the OPTIMA cost reduction programme.

Assessment by the Board of Directors

Recoverability of receivables from Pharmalys Group companies

As part of an agreement concluded on 30 September 2020 between Pharmalys Invest Holding AG, Pharmalys Laboratories SA and Amir Mechria, HOCHDORF was able to significantly expand its collaterals with regard to receivables due from the supply business and in connection with the resale in 2019 (see also note 3). In addition to the rights to the existing and future trademark rights of Pharmalys Laboratories SA, liens have been established on 100% of the shares of Pharmalys Invest Holding AG and Pharmalys Laboratories SA as well as on the shares of HOCHDORF Holding held by Mr Mechria (second ranking). The Board of Directors has commissioned a consulting firm to carry out a valuation of the liens and to work out strategic options for a possible realisation. According to current knowledge, the Board of Directors assumes that the proceeds from a possible realisation will cover all outstanding claims from the delivery business as well as from the resale.

Securing solvency

HOCHDORF currently has a free credit line of CHF 13 million (as at: 7 April 2021), which can be used to finance business operations. The 12-month liquidity plan shows that this credit line would be sufficient in case of realisation of the approved budget and in case of assumed massive payment delays by the Pharmalys companies. However, this credit line would not be able to compensate for a complete default of the Pharmalys Group's outstanding payments. At present, the Board of Directors does not assume a complete default of payment, but a significant postponement of payments.

Compliance with the financial covenants from the credit agreement

The budget approved by the Board of Directors for the 2021 financial year and HOCHDORF's medium-term plan for 2025 show that the covenants can be met if the plans are realised. However, a value adjustment of the receivables from Pharmalys, for example, would have a significant negative impact on the EBITDA and the equity and would severely jeopardise compliance with the covenants (see note 13 to the consolidated financial statements of the HOCHDORF Group). At present, the Board of Directors does not anticipate a value adjustment.

After the balance sheet date, the following events occurred with respect to the risks described:

- As of 31 December 2020, Pharmalys Laboratories SA defaulted on payments. As a consequence, all outstanding payments of the Pharmalys companies became due
- Since 31 December 2020, there has been a cumulative payment receipt from the Pharmalys companies of CHF 9.0 million (as at: 7 April 2021)
- An indicative valuation of the Pharmalys Group has shown that all of HOCHDORF's outstanding receivables are covered. The valuation is therefore substantiated

Other events after the balance sheet date

The following events occurred after the balance sheet date and until the approval of the consolidated financial statements by the Board of Directors:

- On 19 February 2021, a purchase agreement was concluded between Bimbosan AG and a third party for the sale of the buildings and land at the Welschenrohr site, which was closed in 2020, with a transition date of 31 December 2021. The book value of the real estate and land was TCHF 1,984 as at 31.12.2020; no significant book profit is expected from the transaction.

Otherwise, no significant events have occurred since the balance sheet date of 31.12.2020 that could affect the informational value of the 2020 annual financial statements or that would have to be disclosed here. The consolidated financial statements were approved by the Board of Directors in its meeting on 9 April 2021.

34. Non-GAAP indicators used in this report

The financial information in the annual financial statements includes certain non-GAAP indicators that are not defined by Swiss GAAP FER. These indicators are used by management to set targets and assess HOCHDORF's performance. The non-GAAP indicators used may differ from similar measures used by other companies and should not be considered a substitute for the Swiss GAAP FER indicators.

Gross operating profit	The gross operating profit includes net revenues (gross revenues less sales deductions) plus other operating income and changes in inventories less cost of materials.
EBITDA	The EBITDA result comprises the gross operating profit less personnel expenses and other operating expenses.
EBIT	Earnings before interest and taxes (EBIT) comprise EBITDA less amortisations on tangible assets and intangible assets as well as impairment of investments.
Free cash flow	Free cash flow includes cash flow from working capital less changes in net working capital and cash flow from investing activities



Statutory Auditor's Report

To the General Meeting of HOCHDORF Holding Ltd., Hochdorf

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of HOCHDORF Holding Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 49 to 82) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 33 in the consolidated financial statements, which indicates that material uncertainties exist in relation to the recoverability of receivables from Pharmalys Group companies, the securing of solvency and compliance with the financial covenants from the syndicated loan. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Recoverability of receivables from Pharmalys Group



Valuation of fixed assets



Change in accounting policy for hybrid bond

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. In addition to the matters described in the “Material Uncertainty Related to Going Concern” section we have determined the matters described below to be the key audit matters to be communicated in our report.



Recoverability of receivables from Pharmalys Group

Key Audit Matter

HOCHDORF Group has significant business relationships with Pharmalys Group.

As at 31 December 2020 receivables in the amount of CHF 72.7 million due from Pharmalys Group exist, thereof CHF 32.1 million relating to trade accounts receivable and CHF 40.6 million relating to remaining outstanding purchase price installments from the sale of the shares of Pharmalys Laboratories SA. These receivables represent a significant portion of the groups' current assets.

HOCHDORF Group was granted contractual collaterals as a coverage for the open receivables.

A potential valuation adjustment on these receivables can have a significant impact on the financial covenants, which according to the syndicated loan agreement have to be complied with.

In assessing the recoverability management has to make respective evaluations.

Our response

In the course of our audit we have assessed management's evaluation of the recoverability of the receivables due from Pharmalys Group. We have in particular considered whether the contractual collaterals were appropriately taken into account in the evaluation.

With respect to the underlying valuation of the collaterals we focused on the shares in Pharmalys Invest Holding AG, for which a discounted cashflow valuation was prepared. We performed among others the following audit procedures:

- Assessment of the method and process to determine the recoverable amount;
- Evaluation of the competence, capabilities and objectivity of the valuation specialist engaged by HOCHDORF Holding Ltd.;
- Reconciliation of the plan figures with Pharmalys management's latest forecasts;
- Challenging the most important assumptions used in the calculation of the recoverable amount, including future cash flows, long-term growth rates and discount rates by comparing to publicly available data and by involving our own valuation specialist;
- Performing sensitivity analyses.



For further information on the receivables from Pharmalys Group refer to the following:

- Note 33 Assessment as a going concern
- Note 3 Accounts receivables



Valuation of fixed assets

Key Audit Matter

Fixed assets represent with 52.6 % of total assets a significant element of the consolidated balance sheet of HOCHDORF Group. A major part of other fixed assets relates to machinery, production appliances and equipment of the segment Baby Care, which are predominantly located in Sulgen. In the current financial year, an impairment in the amount of CHF 65.8 million was recorded.

Fixed assets are valued at acquisition cost less depreciation. If impairment indicators exist, a discounted cash flow valuation of the respective cash-generating unit is performed.

These calculations are based on estimates and assumptions concerning future cash flows, underlying growth rates and applied discount rates. The results are therefore subject to uncertainty and can have a significant impact on the financial covenants of the HOCHDORF Group, which according to the syndicated loan agreement have to be complied with.

Our response

In the course of our audit we have assessed management's evaluation of the valuation of fixed assets. In doing so, we have assessed whether a methodologically correct valuation method was applied and whether the calculations are reasonable.

In relation to fixed assets for which, based on qualitative and quantitative factors, a discounted cash flow calculation for the respective cash generating unit was prepared, we performed the following procedures:

- Assessment of the method and process to determine the cash generating units;
- Assessment of the forecasting accuracy by performing a retrospective review of budgeted and actual figures;
- Reconciliation of budgeted figures to management's latest forecasts and to business plans approved by the Board of Directors;
- Challenging the assumptions used in the calculation of the recoverable amount, including future cash flows, long-term growth rates and discount rates by comparing to publicly available data and by involving our own valuation specialist;
- Performing sensitivity analyses.

Where the recoverable amount of a cash-generating unit was below its carrying amount, we verified that a respective impairment is recognized and appropriately disclosed.

For further information on fixed assets refer to the following:

- Note 6 Fixed assets



Change in accounting policy for hybrid bond

Key Audit Matter

In 2020 HOCHDORF Group has re-assessed the accounting for the hybrid bond and concluded to change the respective accounting policy.

In HOCHDORF's view the amended accounting policy leads to a more meaningful financial reporting for the hybrid bond.

The change in accounting policy was applied retrospectively as of 1 January 2019.

Our response

In the course of our audit we have evaluated management's rationale in relation to the change in accounting policy for the hybrid bond.

With respect to the change in accounting policy we have assessed the compliance with the respective accounting principles and have performed among others the following procedures:

- Assessment whether the change in accounting policy leads to more meaningful consolidated financial statements;
- Examining whether the retrospective adjustment was done mathematically correct;
- Assessment whether the matter is transparently disclosed in the consolidated financial statements.

For further information on the change in accounting policy for the hybrid bond refer to the following:

- Note Change in accounting policy for hybrid bond on page 55
- Note 15 Share capital – mandatory convertible bond – hybrid bond – contingent capital



Other matter

The consolidated financial statements of HOCHDORF Holding Ltd. for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion on these statements on 18 March 2020. The reason was that the note “Assessment as a going concern” in the consolidated financial statements 2019 did in their view not sufficiently convey the material uncertainty which may cast significant doubt on the company’s ability to continue as going concern.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In the course of our audit performed in accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we noted that the Group has documented and implemented an internal control system for the preparation of the consolidated financial statements, designed according to the instructions of the Board of Directors. However, as outlined in Notes 16, 27 and 28 of the consolidated financial statements, the Group was in the years 2019 and 2020 subject to personnel restructurings, sold subsidiaries and discontinued the division «Cereals & Ingredients». These circumstances have not yet been appropriately reflected in the written documentation and the implementation of the internal control system.

In our opinion, except for the matter described in the preceding paragraph, an internal control system for the preparation of consolidated financial statements, designed in accordance with the instructions of the Board of Directors, exists.

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

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Joel Wachter
Licensed Audit Expert

Lucerne, 9 April 2021

KPMG AG, Pilatusstrasse 41, CH-6003 Luzern

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HOCHDORF Holding Ltd

BALANCE SHEET AS AT 31 DECEMBER

TCHF	Explanations in the notes	2020	in %	2019	in %
Assets					
Cash and cash equivalents and short-term assets with market price		3,271	0.9%	6,599	1.7%
Trade accounts receivables		169	0.0%	0	0.0%
Trade accounts receivables from related parties		0	0.0%	25	0.0%
Trade accounts receivables from investments		1	0.0%	28	0.0%
Other receivables		19	0.0%	49	0.0%
Other receivables from related parties	3.1)	40,602	11.7%	64,191	16.3%
Other receivables from investments		69	0.0%	0	0.0%
Accrued income		0	0.0%	80	0.0%
Current assets		44,131	12.7%	70,972	18.0%
Financial assets		0	0.0%	0	0.0%
Loans from investments	3.2)	124,526	35.8%	140,469	35.7%
Loans from investments under subordination	3.2)	90,814	26.1%	91,217	23.2%
Investments	3.2)	88,565	25.4%	90,555	23.0%
Fixed assets		303,905	87.3%	322,241	82.0%
Total assets		348,036	100.0%	393,213	100.0%
Liabilities					
Trade payables	3.4)	238	0.1%	140	0.0%
Short-term interest-bearing payables	3.4)	0	0.0%	6,000	1.5%
Other short-term liabilities	3.4)	1,085	0.3%	1,114	0.3%
Accrued liabilities and deferred income	3.4)	1,672	0.5%	2,742	0.7%
Short-term provisions	3.4)	0	0.0%	11,124	2.8%
Short-term liabilities capital		2,995	0.9%	21,120	5.4%
Long-term interest-bearing payables	3.5)	195,000	56.0%	340,895	86.7%
Long-term interest-bearing payables to shareholdings	3.5)	97	0.0%	96	0.0%
Long-term liabilities capital	3.5)	195,097	56.1%	340,991	86.7%
Liabilities		198,092	56.9%	362,111	92.1%
Share capital	6)	21,518	6.2%	17,584	4.5%
Statutory capital reserves (capital investments)	7)	139,404	40.1%	154,638	39.3%
Legal retained earnings	7)	10,172	2.9%	10,172	2.6%
Voluntary retained earnings		20,348	5.8%	20,348	5.2%
Accumulated net loss		-35,273	-10.1%	-165,416	-42.1%
- (loss)/profit carried forward	7)	-35,416	-10.2%	42,095	10.7%
- result for the year		143	0.0%	-207,511	-52.8%
Treasury shares	5)	-6,224	-1.8%	-6,224	-1.6%
Shareholders' equity		149,944	43.1%	31,101	7.9%
Total liabilities and equity		348,036	100.0%	393,213	100.0%

HOCHDORF Holding Ltd

INCOME STATEMENT

	Explanations in the notes	2020 TCHF	2019 TCHF
		1.1.20– 31.12.20	1.1.19– 31.12.19
Income from equity investments	3.6)	147	192
Financial income	3.6)	5,406	4,831
Operating income	3.6)	5,402	-1
Total income		10,954	5,023
Financial expenses	3.8)	-10,083	-211,186
Operating expenses	3.7)	-735	-1,353
Direct taxes	6	6	6
Total expenses		-10,812	-212,534
Result for the year		143	-207,511

Notes to the annual financial statements for 2020

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 957-964 b CO).

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 short-term assets with market price

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 receivables

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

Financial assets, loans to investments, investments in subsidiaries and associates

Loans to group companies are measured at no more than acquisition cost less possible value adjustments.

Treasury shares

Treasury 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. Other receivables to related parties

Other receivables to related parties mainly include the outstanding payments of Pharmalys Invest Holding AG due to the sale of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. Pharmalys Africa S.à.r.l. Payment dates are 15 May 2021 (CHF 10 million) and 30 September 2021 (CHF 24.2 million). See also note 33 to the consolidated financial statements of the HOCHDORF Group.

3.2. Loans to investments

TCHF	31.12.2020	31.12.2019
Loans to investments	130,852	156,686
Loans to investments under subordination	90,814	91,217
Value adjustments on loans to subsidiaries	-6,327	-16,217
Total	215,339	231,686

3.3. Investments

	Purpose	Currency	Capital in 1,000		Capital and voting share	
			31.12.2020	31.12.2019	31.12.2020	31.12.2019
HOCHDORF Swiss Nutrition Ltd, Hochdorf, Switzerland	Production	CHF	30,000	30,000	100%	100%
Schweiz. Milch-Gesellschaft Ltd, Hochdorf, Switzerland	Shell company	CHF	100	100	100%	100%
Marbacher Ölmühle GmbH, Marbach, Germany	Production	EUR	0	2,000	0%	100% ¹⁾
Uckermärker Milch GmbH, Prenzlau, Germany	Production	EUR	10,000	10,000	26%	60% ²⁾
Ostmilch Handels GmbH, Bad Homburg, Germany	Trade	EUR	1,000	1,000	26%	26%
Ostmilch Handels GmbH Frischdienst Oberlausitz KG, Schlegel, Germany	Logistics	EUR	51	51	26%	26%
Ostmilch Frischdienst Magdeburg GmbH, Meitzendorf, Germany	Trade	EUR	25	25	26%	26%
HOCHDORF Americas Ltd, Montevideo, Uruguay	Trade	UYU	3,283	3,283	60%	60%
Snapz Foods AG, Hochdorf, Switzerland	Trade	CHF	100	100	100%	65% ³⁾
Zifru Trockenprodukte GmbH, Zittau, Germany	Production	EUR	200	200	100%	100%
Snapz Foods USA Inc., Delaware, USA	Trade	USD	0	50	0%	65% ⁴⁾
Bimbosan AG, Welschenrohr, Switzerland	Production	CHF	350	350	100%	100%
Thur Milch Ring AG, Sulgen, Switzerland	Trade	CHF	170	170	56%	56%

¹⁾ Sale of shareholding as at 31.12.2020

²⁾ Sale of shareholding as at 28.02.2020 to Ostmilch Handels GmbH, Bad Homburg, which thus owns 100% of the shares. Thereby still held as an indirect interest

³⁾ In liquidation: due to the non-payment of the pro rata capital by the minority shareholder, the shares reverted to HOCHDORF Holding Ltd

⁴⁾ In liquidation: deconsolidated as at 30.06.2020

The following changes took place in the reporting period:

TCHF	2020	2019
Investment book value 1.1. (CHF 1,000)	90,555	349,705
Disposal of shareholding in HOCHDORF South Africa Ltd. due to sale		-35
Disposal of shareholding in Pharmalys Laboratories SA due to sale		-243,992
Disposal of shareholding in Pharmalys Tunisie S.a.r.l. due to sale		-1,220
Disposal of shareholding in Pharmalys Africa S.a.r.l. due to sale		-27
Depreciation of shareholding in Uckermärker Milch GmbH		-8,980
Depreciation of shareholding in Snapz Foods AG		-65
Depreciation of shareholding in Zifru Trockenprodukte GmbH		-1,468
Partial depreciation of shareholding in Ostmilch Handels GmbH		-3,488
Addition of shareholding in Thur Milch Ring AG due to purchase		125
Disposal of shareholding in Marbacher Ölmühle due to sale on 31.12.2020	-1,989	
Disposal of shareholding in Uckermärker Milch GmbH due to sale on 28.02.2020	0	
Investment book value 31.12.	88,566	90,555

3.4. Short-term liabilities

TCHF	31.12.2020	31.12.2019
Services provided by third parties	238	140
Short-term interest-bearing liabilities	0	6,000
Other (government bodies)	1,085	1,114
Accrued liabilities and deferred income	1,672	2,742
Short-term provisions	0	11,124
Total	2,995	21,120

The short-term interest-bearing liability (syndicated loan) recognised in the previous year was repaid in 2020. No repayments are planned for 2021. The provision formed in the previous year for the risk of the assumption of the loan from Commerzbank AG to Uckermärker Milch GmbH utilised through the sale of Uckermärker Milch GmbH on 28.02.20 in the amount of EUR 6 million; the remainder was released through profit and loss under financial expenses.

3.5. Long-term interest-bearing payables

TCHF	31.12.2020	31.12.2019
Syndicated loan	70,000	96,000
Long-term financial liabilities (bonds)	125,000	244,895
Loans of shareholdings	97	96
Total	195,097	340,991

The mandatory convertible bond has been converted into equity as of 31.03.2020. This item thus contains only the hybrid bond, which can be repaid in June 2023 at the earliest. For further details, refer to the notes to the consolidated financial statements of the HOCHDORF Group, note 15.

3.6. Income from equity investments/financial income/operating income

TCHF	31.12.2020	31.12.2019
Income from equity investments	147	192
Financial income	5,406	4,831
Other operating income	5,402	-1
Total	10'954	5'023

Income from equity investments includes dividends from Ostmilch Handels GmbH, Ostmilch Handels GmbH Frischdienst Oberlausitz and Ostmilch Frischdienst Magdeburg.

Financial income mainly includes interest from loans to subsidiaries (CHF 3.0 million), as well as interest from the outstanding Pharmalys payment (CHF 1.2 million) and exchange rate gains of CHF 1.1 million.

Other operating income includes a bonus in connection with the deferral of the outstanding purchase price payment from the Pharmalys sale and the current supply business.

3.7. Operating expenses

TCHF	31.12.2020	31.12.2019
Personnel expenses	0	-145
Property insurances, fees	-28	-89
Administration and IT expenditure	-661	-1,022
Marketing and sales expenditure	-35	-87
Other operating expenses	-5	-2
Bank charges, agency fees	-6	-8
Total	-735	-1,353

2020: Reclassification of Board of Director fees from personnel expenses to administrative and IT expenses (TCHF 59).

3.8. Financial expenses

TCHF	31.12.2020	31.12.2019
Interest costs	-8,979	-16,107
Other financial expenses	3,044	-3,321
Value adjustments on shareholdings	-4,148	-191,758
Total	-10,083	-211,186

The sale of the Marbacher Ölmühle resulted in a total loss of CHF 4.1 million, of which CHF 4.1 million was attributable to the value adjustment on shareholdings and loans; the remaining investment book value/loan amount was covered by the sales proceeds of EUR 2.4 million.

Other financial expenses include proceeds of CHF 4.3 million from the sale of Uckermärker Milch GmbH. The proceeds come exclusively from the partial reversal of a provision for the utilisation of a loan to Commerzbank. In addition, other financial expenses mainly include exchange rate losses of CHF 0.4 million as well as loan procurement costs and custodian fees of CHF 0.4 million.

4. Shareholders

Shareholders >3% of total share capital	31.12.2020	31.12.2019
Amir Mechria, Zug	20.63%	18.34%
ZMP Invest AG, Lucerne	17.96%	12.23%
Bermont Master Fund LP, Cayman Island (previously: Stichting General Holdings, Amersfoort)	14.50%	17.81%
Weiss Family and Innovent Holding AG, Wollerau ¹⁾	5.58%	4.65%

Shareholders >3% of the total voting rights	31.12.2020	31.12.2019
The maximum entry limit is 15% in the share register of votes.		
Amir Mechria, Zug	15.00%	15.00%
ZMP Invest AG, Lucerne	15.00%	12.23%
Bermont Master Fund LP, Cayman Island (previously: Stichting General Holdings, Amersfoort)	14.50%	15.00%
Weiss Family and Innovent Holding AG, Wollerau ¹⁾	5.58%	4.65%

¹⁾ The reporting date as at 31 December 2019 did not or does not include the purchase positions due to the mandatory convertible bond in the amount of 2.18% (conversion on 30 March 2020).

5. Transactions with treasury shares

Business year 2020 (in CHF)			Business year 2019 (in CHF)		
01.01.2020 balance	29,738 shares	exchange rate 209.30	01.01.2019 balance	30,952 shares	exchange rate 209.30
FY 2020 purchases	0 shares	daily exchange rate 0	FY 2019 purchases	0 shares	daily exchange rate 0
FY 2020 sales	0 shares	daily exchange rate 0	FY 2019 sales	-1,214 shares	daily exchange rate 115.79
31.12.2020 balance	29,738 shares	exchange rate 209.30	31.12.2019 balance	29,738 shares	exchange rate 209.30

6. Contingent capital

In 2020, the conditional capital from previous years, of nom. CHF 3,937,710, corresponding to 393,771 registered shares at nom. CHF 10 was used to increase the share capital.

7. Capital reserves

The accumulated net loss of the previous year and the associated half capital loss were counteracted by withdrawing CHF 130 million from the capital reserves and transferring it to net loss carry-forward. The remaining loss of CHF 35.4 million was carried forward (AGM resolution 2020). As of 26 March 2020, the mandatory convertible bond was converted into equity. The gross amount of CHF 119.9 million was reduced by the issuance stamp tax of CHF 1.2 million and the share increase of CHF 3.9 million.

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

	Anzahl Aktien 31.12.2020	Anzahl Aktien 31.12.2019
Jürg Oleas, Chair from 30.06.20	0	n.a.
Andreas Herzog, Vice Chair from 30.06.20	0	n.a.
Ralph Siegl, from 30.06.20	100	n.a.
Markus Bühlmann, from 12.04.2019	0	n.a.
Jean Philippe Rochat, from 30.06.20	0	n.a.
Bernhard Merki, Chair to 30.06.20	n.a.	5
Jörg Riboni, Vice Chair to 30.06.20	n.a.	0
Markus Kalberer, Audit Committee to 12.04.2019	n.a.	10
Dr Walter Locher, Audit Committee, Personnel and Remuneration Committee to 30.06.20	n.a.	1,713
Total – Board of Directors	100	1,728

Group Management

Dr Peter Pfeilschifter, CEO from 01.01.20; Managing Director Dairy Ingredients	257	257
Jürgen Brandt, CFO to 29.06.20	n.a.	0
Christoph Peternell, COO to 30.06.20	n.a.	658
Frank Hoogland, Managing Director Baby Care to 31.03.20	n.a.	482
Nanette Haubensak, CFO from 29.06.20	0	n.a.
Géza Somogyi, COO from 01.07.20	0	n.a.
Total – Group Management	257	1,397
Total – Board of Directors and Group Management	357	3,125

According to the 2020 remuneration regulations, the remuneration for the Board of Directors and the Group Management is paid in cash. There is therefore no allocation of shares.

9. Contingent liabilities

HOCHDORF Holding Ltd issued a letter of comfort to Zifru Trockenprodukte GmbH, Herwigdorfer Str. 10c, 02763 Zittau, Germany on 30 April 2020. The company is in liquidation; the letter of comfort secures liquidity up to an amount of EUR 500,000. There were no contingent liabilities in the previous year.

10. Assessment as a going concern (see also note 33 to the consolidated financial statements of the HOCHDORF Group)

10.1. Uncertainties at 31 December 2020 and for the 2021 and 2022 business year

There are material uncertainties (listed below) which, depending on how the situation develops, may cast significant doubt about the Group's ability to continue as a going concern. The Board of Directors and the Group Management are of the opinion that, despite these uncertainties, HOCHDORF's ability to continue as a going concern is not currently in question.

- 1) Recoverability of receivables from Pharmalys Invest Holding AG of CHF 40.6 million of outstanding payments due to the sale of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l.
- 2) Recoverability of receivables from Pharmalys Laboratories SA (as at 31.12.2020: CHF 32.1 million) to HOCHDORF Swiss Nutrition Ltd
- 3) Securing solvency due to (partial) payment defaults and postponements by Pharmalys companies, especially in respect to HOCHDORF Swiss Nutrition Ltd.
- 4) Compliance with the financial covenants from the credit agreement (see also notes to the consolidated financial statements of the HOCHDORF Group, note 13)

The Board of Directors is currently focusing on developing financial strategy options, which may include capital measures to further stabilise the balance sheet and the liquidity position and to support sustainable corporate growth.

Risk (1) and (4) would affect HOCHDORF Holding Ltd as a direct creditor or debtor of the syndicated loan; risk (2) and (3) affect HOCHDORF Swiss Nutrition Ltd. HOCHDORF Holding Ltd would be indirectly affected in that the value of the investment and the outstanding loans towards HOCHDORF Swiss Nutrition Ltd would have to be questioned. The Board of Directors sees realistic opportunities for the implementation of the 2021 budget for the entire HOCHDORF Group approved by the Board of Directors as well as the 2025 medium-term plan with projected increases in sales and turnover in the Baby Care and Food Solutions (formerly Dairy Ingredients) divisions, as strategic and operational measures were already introduced in 2020 to create the basis for sustainable growth. In 2020, these included project development with new customers, including initial deliveries to Vietnam and new projects in Southeast Asia, the development of new products (including goat milk, vegan bisoja, pre-term formula), integration of Bimbosan, strengthening of the Baby Care sales team and expansion of the "OPTIMA" cost reduction programme. Based on this, the Board of Directors also sees no increased risk of impairment of the investment values or the loans to the Group companies at HOCHDORF Holding Ltd.

10.2. Assessment by the Board of Directors

- 1) **Recoverability of receivables from Pharmalys Invest Holding AG:** As part of an agreement concluded on 30 September 2020 between Pharmalys Invest Holding AG, Pharmalys Laboratories SA and Amir Mechria, the HOCHDORF Group was able to significantly expand its collaterals with regard to receivables due from the outstanding purchase price payments and also from the supply business. In addition to the rights to the existing and future trademark rights of Pharmalys Laboratories AG, liens have been established on 100% of the shares of Pharmalys Invest Holding AG and Pharmalys Laboratories AG as well as on the shares of HOCHDORF Holding Ltd held by Mr Mechria (second ranking). The Board of Directors has commissioned a consulting firm to carry out a valuation of the liens and to work out strategic options for a possible realisation.
- 2) **Securing solvency:** The HOCHDORF Group has a free credit line of CHF 13 million (as at: 07/04/2021), which can be used to finance business operations (see also notes to the consolidated financial statements of the HOCHDORF Group, note 13). The 12-month liquidity plan shows that this credit line would be sufficient in case of realisation of the approved budget and in case of assumed massive payment delays by the Pharmalys companies. However, this credit line would not be able to compensate for a complete default of the Pharmalys Group's outstanding payments. At present, the Board of Directors does not assume a complete default of payment, but a significant postponement of payments.

10.3. Events after the balance sheet date

With regard to the risks detailed above, the following events occurred after the balance sheet date and until the approval of the consolidated financial statements by the Board of Directors:

- > As of 31/12/2020, Pharmalys Laboratories SA defaulted on payments. As a consequence, all outstanding payments of the Pharmalys companies became due
- > Since 31/12/2020 there has been a cumulative payment receipt from the Pharmalys companies of CHF 9 million (as at: 07/04/2021)
- > An indicative valuation of the valuation of the Pharmalys Group has shown that all outstanding receivables of the HOCHDORF Group are covered. The valuation is therefore substantiated

HOCHDORF Holding Ltd

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

	31.12.2020 TCHF	31.12.2019 TCHF
(Loss)/profit carried forward	-35,416	42,095
Result of the year	143	-207,511
Total available to Annual General Meeting	-35,273	-165,416

Motion concerning the proposed appropriation of net loss 2020

Balance carried forward	-35,273	-165,416
Withdrawal from capital reserve/allocation to profit reserve ¹⁾		130,000
Total appropriation of profits	-35,273	-35,416

¹⁾ As per resolution at the AGM 2020; see note 7



Statutory Auditor's Report

To the General Meeting of HOCHDORF Holding Ltd., Hochdorf

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HOCHDORF Holding Ltd., which comprise the balance sheet as at 31 December 2020 and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 89 to 97) for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 10 in the financial statements, which indicates that material uncertainties exist in relation to the recoverability of receivables from Pharmalys Group companies, the securing of solvency and compliance with the financial covenants from the syndicated loan agreement. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Valuation of investments and recoverability of loans to subsidiaries



Recoverability of receivables from Pharmalys Invest Holding AG

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. In addition to the matters described in the "Material Uncertainty Related to Going Concern" section we have determined the matters described below to be the key audit matters to be communicated in our report.



Valuation of investments and recoverability of loans to subsidiaries

Key Audit Matter

HOCHDORF Holding Ltd. holds all significant investments of the HOCHDORF Group and grants loans to several subsidiaries.

The investments and loans to subsidiaries account for a material portion of total assets. Therefore, valuation of these assets has a significant impact on the result and equity of HOCHDORF Holding Ltd.

If impairment indicators exist, management analyses the valuation of investments on the basis of discounted cash flow calculations and assesses the recoverability of the loans to subsidiaries on the grounds of the future prospects.

Our response

In the course of our audit we have assessed management's valuations. In doing so, we have assessed whether a methodologically correct valuation method was applied and whether the calculations are reasonable.

In relation to subsidiaries for which, based on qualitative and quantitative factors, a detailed discounted cashflow calculation was prepared, we performed among others the following procedures:

- Assessment whether the carrying amounts of investments and loans were correctly considered in the calculation;
- Assessment of the forecasting accuracy by performing a retrospective review of budgeted and actual figures;
- Reconciliation of budgeted figures to management's latest forecasts and to business plans approved by the Board of Directors;
- Challenging the most important assumptions used in the calculation of the recoverable amount, including future cash flows, long-term growth rates and discount rates by comparing to publicly available data and by involving our own valuation specialist;
- Performing sensitivity analyses.

For further information on investments and loans to subsidiaries refer to the following:

- Note 3.2 Loans to subsidiaries
- Note 3.3 Investments



For further information on the receivables from Pharmalys Group refer to the following:

- Note 33 Assessment as a going concern
- Note 3 Accounts receivables



Valuation of fixed assets

Key Audit Matter

Fixed assets represent with 52.6 % of total assets a significant element of the consolidated balance sheet of HOCHDORF Group. A major part of other fixed assets relates to machinery, production appliances and equipment of the segment Baby Care, which are predominantly located in Sulgen. In the current financial year, an impairment in the amount of CHF 65.8 million was recorded.

Fixed assets are valued at acquisition cost less depreciation. If impairment indicators exist, a discounted cash flow valuation of the respective cash-generating unit is performed.

These calculations are based on estimates and assumptions concerning future cash flows, underlying growth rates and applied discount rates. The results are therefore subject to uncertainty and can have a significant impact on the financial covenants of the HOCHDORF Group, which according to the syndicated loan agreement have to be complied with.

Our response

In the course of our audit we have assessed management's evaluation of the valuation of fixed assets. In doing so, we have assessed whether a methodologically correct valuation method was applied and whether the calculations are reasonable.

In relation to fixed assets for which, based on qualitative and quantitative factors, a discounted cash flow calculation for the respective cash generating unit was prepared, we performed the following procedures:

- Assessment of the method and process to determine the cash generating units;
- Assessment of the forecasting accuracy by performing a retrospective review of budgeted and actual figures;
- Reconciliation of budgeted figures to management's latest forecasts and to business plans approved by the Board of Directors;
- Challenging the assumptions used in the calculation of the recoverable amount, including future cash flows, long-term growth rates and discount rates by comparing to publicly available data and by involving our own valuation specialist;
- Performing sensitivity analyses.

Where the recoverable amount of a cash-generating unit was below its carrying amount, we verified that a respective impairment is recognized and appropriately disclosed.

For further information on fixed assets refer to the following:

- Note 6 Fixed assets



Other matter

The financial statements of HOCHDORF Holding Ltd. for the year ended 31 December 2019 were audited by another auditor who expressed a qualified opinion on these statements on 18 March 2020. The reason was that the note "Assessment as a going concern" in the financial statements 2019 did in their view not sufficiently convey the material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In the course of our audit performed in accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we noted that the Company has documented and implemented an internal control system for the preparation of the financial statements, designed according to the instructions of the Board of Directors. However, as outlined in Notes 3.3, 8 and 10 of the financial statements respectively in Notes 16, 27 and 28 of the consolidated financial statements, the Group was in the years 2019 and 2020 subject to personnel restructurings, sold subsidiaries and discontinued the division «Cereals & Ingredients». These circumstances have not yet been appropriately reflected in the written documentation and the implementation of the internal control system.

In our opinion, except for the matter described in the preceding paragraph, an internal control system for the preparation of financial statements, designed in accordance with the instructions of the Board of Directors, exists.

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.

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Joel Wachter
Licensed Audit Expert

Lucerne, 9 April 2021

KPMG AG, Pilatusstrasse 41, CH-6003 Luzern

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Corporate Social Responsibility

In this Annual Report, the HOCHDORF Group provides detailed information on the topic of sustainability in its customary two-year cycle. As part of its future strategy development in the second half of 2020, the Board of Directors and Group Management jointly agreed to intensify HOCHDORF's sustainability efforts. This will include creating a Sustainability Strategy 2030 with new ambitious targets and measures along the value chain by the end of 2021. In addition to the topics currently under consideration, a new sustainability core team will also develop action targets for sustainable milk and animal welfare, climate and greenhouse gas emissions, waste avoidance and water consumption, as well as waste-water management for the Swiss locations.



“By the end of 2021 we will have completed our sustainability strategy and defined its key projects“

Jürg Oleas, Chair of the Board of Directors

“Our new corporate positioning is based on the triad of nature–people–technology. This triad will play a key role in our efforts to intensify our contribution towards sustainability and we will continue to set challenging goals for the years ahead. HOCHDORF is already processing Swiss cow’s milk, 85% of which is produced in accordance with the “swiss milk green” standard. Milk from our Thur Milch Ring direct suppliers already meets the requirements by over 97%.“

Peter Pfeilschifter, CEO of the HOCHDORF Group

Our employees

As at the end of 2020, the HOCHDORF Group had a total of 391 employees, around 40% less than two years previously. This reduction in the number of employees is primarily related to the restructuring and the associated disposals and liquidations of individual business areas and HOCHDORF Group companies, both in Switzerland and abroad.

Equal opportunity and diversity in the workplace

Women and men have been treated equally at the HOCHDORF Group for years. The proportion of women in the workforce at HOCHDORF is around 30%. Around 20% of the positions in middle and senior management are filled by women and this has not changed in the last two years. A woman is also now represented in Group Management again with the appointment of Nanette Haubensak as Chief Financial Officer since 29 June 2020.

HOCHDORF employees come from diverse social backgrounds, drawn from over 20 countries and different age groups. The workforce is a good mix of young and more experienced employees. At HOCHDORF Swiss Nutrition Ltd, for example, most employees are aged between 50 and 59 (around 28%), closely followed by around 23% aged between 40 and 49. The gradual rejuvenation and associated qualification of our workforce as a result of the foreseeable wave of retirements represents a major challenge for the coming years.

Commitment to education and training

HOCHDORF offered 18 apprenticeships in seven professional disciplines as of the end of 2020. As well as providing our apprentices with suitable training, we also see the importance of offering them permanent employment at the end of their training. This provides them with the valuable professional experience they need for their future careers. Due to the restructuring and the coronavirus crisis, HOCHDORF has only been able to support limited or internal further training. However, it attaches great importance to lifelong learning. As soon as the COVID-19 restrictions allows this again, internal and external further training will be offered more frequently. We aim to have agreed on a training and/or development plan for all employees by 2025 and to fill vacancies, especially management positions, with internal candidates whenever possible.

"Future 2030" – moving towards the future with shared values

HOCHDORF and its employees have experienced two difficult years. 2019 was characterised by a strategic restructuring of the company and the associated major changes. Restructuring, disposals and closures of business divisions and companies led to increased uncertainty among employees and, as a result, to increased fluctuation at all levels in the Group.

We were able to turn the corner in 2020, our 125th anniversary year. In the second half of the year, the newly formed Board of Directors and Group Management who took up post on 30 June 2020 focused on stabilising the company and shaping its future. The Board of Directors and Group Management greatly value the participation of employees at all management levels. To this end, the employees were also involved in the strategy process. In parallel, a series of workshops with employees was launched in autumn 2020 under the banner "Future 2030 - what does HOCHDORF stand for?" The aim of these workshops was to develop HOCHDORF's corporate purpose, vision and mission, as well as its corporate and leadership values. The results of the "Future 2030" process have been incorporated into the strategy and future positioning of the company.

Restructuring the Employee Commission

The restructuring of the Employee Commission (Miko) began in mid-2019. The commission currently consists of eight employees from both locations. They are the link between employees and management. One of the goals of the commission is to promote a relationship of trust and good understanding between the Group Management, managers and employees. Another objective is to further build the sense of community among all employees. Through its work, the commission has also set out to increase employee satisfaction in the workplace and to strengthen employee participation and co-responsibility in the company.

Healthy pension fund

The pension fund of HOCHDORF Swiss Nutrition Ltd has operated successfully over the past two years and is in a very solid position. The staff pension fund is managed by a committee of employer and employee representatives. The cover ratio as of 31 December 2020 is 114.9 %, and the savings balance earned interest at 2.2% in 2020. Employees have flexible retirement options from the age of 58 to 70.

KEY FIGURES - EMPLOYEES

	2020	2018	2016
Total number of employees (as at 31 December)	391	694	633
Number of full-time equivalents (as at 31 December) ¹⁾	360	647	589
Employees by area			
Administration and Marketing/Sales	80	158	120
Laboratory and Development	69	91	94
Production	170	362	343
Supply Chain and Technology	72	83	76
Employees by location			
Hochdorf	187	217	212
Sulgen	179	203	166
Welschenrohr, Bimbosan AG	23	23	
Zittau, Zifru Trockenprodukte GmbH	2	29	
Apprentices	18	38	31
Total share of women	29%	38%	32%
Share of women in middle and senior-level management	19%	20%	22%
Staff turnover ²⁾	10.2%	7.8%	5.8%
Sickness rate, in % of all working days	3.5%	3.7%	4.7%
Accident rate, in % of all working days	0.4%	0.4%	0.5%

¹⁾ Apprentices are counted in 2019 as 0.50 full-time equivalent and in 2020 as full-time equivalent

²⁾ Voluntary departures in relation to the average number of employees per year

Our energy sources and energy consumption

In the past two years, the HOCHDORF Group sold a significant proportion of its subsidiaries. The figures and projects relating to energy sources and energy consumption therefore refer here exclusively to the Swiss sites in Hochdorf and Sulgen.

CO₂, energy and water consumption: focus on manufactured products

The starting point for the analyses of energy consumption is the volume of products manufactured in Hochdorf and Sulgen. Compared to 2018, the volume of products produced in 2020 decreased by -12.6% to 53,991 tonnes. This is due in particular to the low plant utilisation in the Baby Care division. In addition, two spray towers in need of renovation were shut down in Hochdorf in January 2020. The third influence was an increase in domestic consumption of fresh dairy products and cheese in connection with the Covid-19 pandemic, due to the restriction of shopping tourism to nearby foreign countries. The volume of milk for processing into long-life dairy products was correspondingly lower.

Due to the low utilisation of some plants, HOCHDORF required less fossil and electrical energy in 2020 than in previous years. However, when converted to the necessary energy input per tonne, it can be seen that plants working at capacity produce products more efficiently. In addition, proportionally more spray powder was produced (spray drying is significantly more energy-intensive than roller drying). The same picture emerges in connection with CO₂ emissions: a decrease in absolute CO₂ emissions with simultaneous increase in CO₂ emissions per tonne of product produced.

The same effect can be seen in water consumption. The absolute amount of fresh water used was reduced compared to previous years. However, a relative analysis shows that fresh water consumption has again increased slightly compared to 2018. The additional cleaning required for underutilised facilities is relevant here. Frequent product changes increase the amount of cleaning required.

Bimbosan: environmentally friendly packaging and palm oil-free products

The choice of packaging also influences energy consumption and the CO₂ balance. For its own brand, Bimbosan, HOCHDORF now uses bags made from renewable raw materials wherever pos-

sible. Among other things, the packaging is made of polyethylene (PE) from renewable raw materials, the production of which consumes carbon dioxide and releases oxygen. The bio-plastic is therefore environmentally friendly and improves the CO₂ balance. Furthermore, Bimbosan offers its customers an ecological solution with practical refill bags.

Bimbosan sold the first palm-oil-free baby food in Switzerland. Now almost all infant formula, follow-on formula and children's milks are produced without palm oil, as are all baby porridges, cereal products and snacks. In addition, HOCHDORF offers its business customers in the baby care sector the opportunity to produce their products without palm oil.

Innosuisse liquid project: avoiding unnecessary drying steps

The most important sub-processes for the production of baby milks and various milk, whey and protein powders include concentrating, drying, mixing and packaging. The drying process in particular is especially energy-intensive.

In order to avoid multiple drying of lactose, HOCHDORF has launched an Innosuisse research project as part of the federal government's innovation funding. The aim is to use the lactose produced in Sulgen in liquid form in infant formula, thereby saving an additional drying process. This is where technological competence, innovative strength and the conservation of environmental resources come together.

OPTIMA: sustainability through our efficiency programme

At the beginning of 2020, a company-wide efficiency programme was launched under the project name "OPTIMA". Projects that increase efficiency are often also sustainability projects.

In particular, the projects on waste avoidance, reducing plant losses and optimising the use of resources and water can be included in this respect. We expect significant sustainability effects from these areas in the coming years.

ENERGY AND ENVIRONMENT FIGURES ¹⁾

	Unit	2020	2018	2016	% change (2018 – 2020)
Produced products	t	53,991	64,840	81,154	-16.73%
Fossil energy (total)	kWh	125,095,638	145,525,724	151,487,778	-14.04%
thereof, natural gas	kWh	125,094,079	145,315,802	151,234,328	-13.92%
thereof, heating oil	kWh	1,559	209,922	253,450	-99.26%
Electricity (total)	kWh	27,896,714	31,942,746	29,530,515	-12.67%
Fresh-water volume	m³	746,075	879,260	812,777	-15.15%
Wastewater volume	m³	888,542	1,019,488	1,089,813	-12.84%
Energy/output (fossil)	kWh/t	2,317.0	2,244.4	1,866.7	3.23%
Energy/output (electricity)	kWh/t	516.7	492.6	363.9	4.88%
Fresh water	m ³ /t ²⁾	13.8	13.6	10.0	1.90%
Wastewater	m ³ /t ²⁾	16.5	15.7	13.4	4.67%
CO₂ emissions	t	29,566	34,340	35,178	-13.90%
CO ₂ emissions/prod. product	kg/t	547.6	529.6	433.5	3.4%

1) All figures refer exclusively to the Swiss plants Hochdorf and Sulgen.

2) (Waste) water per tonne of produced products

The HOCHDORF Group in society

The HOCHDORF Group maintains a lively exchange with numerous internal and external stakeholders and target groups. Open and trusting relationships with customers, employees, suppliers and shareholders are crucial to us. We also maintain regular contact with authorities, associations and the local population. We experience strong support for our economic success at our sites. In our function as an employer, we bear a great economic responsibility, currently employing 391 members of staff in Switzerland. Local workers also benefit from our investment projects and maintenance work whenever it is technically sensible and feasible.

Our economic and political role

In terms of agriculture production, the HOCHDORF Group sees itself as a customer and partner. With the purchase, processing and sale of agricultural raw materials, we enable many farming families to earn a regular income.

HOCHDORF is involved in numerous industry organisations, interest groups, specialist commissions and working groups to promote good understanding, such as the Federation of Swiss Food Industries (fial), the Swiss Milk Sector Organisation (BOM) and the Swiss milk industry association (VMI).

Targeted communication

HOCHDORF attaches great importance to open and transparent communication. Its Brand & Communication Service Centre ensures that information is up-to-date, relevant, open and tailored to the target groups, both internally and externally.

Numerous internal communication channels enable comprehensive information from the CEO to the employees and vice versa. The communication channels are regularly reviewed and adapted to current developments. An additional channel is the Employee Commission, which meets regularly with the CEO and the Head of HR.

The Annual Report, a letter to shareholders on the interim results, the customer magazine HOCHDORF Inside, e-newsletters and various social media channels keep shareholders and customers up to date, e.g. on the course of business, product innovations, Group development and market developments. Media representatives and analysts are also informed about the annual figures at the annual results press conference. The HOCHDORF Group informs all stakeholders about special events on an ad hoc basis, through press releases, as promptly as possible. All the latest information is available on the website (www.hochdorf.com) at all times.

HOCHDORF Holding Ltd

Siedereistrasse 9
Postfach 691
6281 Hochdorf
Switzerland
Tel. +41 41 914 65 65
holding@hochdorf.com
www.hochdorf.com

Concept and editing

HOCHDORF Brand & Communication
6281 Hochdorf

Photography and image processing

Colin Maynard/unsplash (title image)
Candy Retriever/iStock via Getty Images (p. 6)
Brigit Willimann, Hochdorf (p. 7, 14, 32, 33, 37, 38)
Jasmin Merdan/Moment via Getty Images (p. 12)
Tom Wang - stock.adobe.com (p. 13)
Natalie Boo, AURA Foto Film Verlag GmbH,
Emmenbrücke (p. 15, 16, 17)
Martin Barraud/OJO Images
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Hafpoint - stock.adobe.com (p. 22)
Peter Cade/Stone via Getty Images (p. 104)
Jose Luis Pelaez Inc/DigitalVision
via Getty Images (back)

Concept/Layout

Farner Consulting AG, Zürich
W4 Marketing AG, Zürich

Financial calendar

Annual General Meeting: 9 June 2021
Half-yearly statement: 16 August 2021

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HOCHDORF

+ Swiss Nutrition Solutions



HOCHDORF HOLDING LTD

SIEDEREISTRASSE 9

6281 HOCHDORF / SWITZERLAND

T +41 41 914 65 65

F +41 41 914 66 66

WWW.HOCHDORF.COM