ANNUAL REPORT

2019

HOCHDORF®
BEST PARTNER

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Further information

Important data/fact

Annual Report 2019

HOCHDORF®
BEST PARTNER

Facts and figures

2019 has been influenced by additional capital allowance and value adjustments as part of a year of transformation. The extension of the syndicated loan and the sale of the Pharmalys companies were two important measures. In the future, HOCHDORF will focus on the Baby Care and Dairy Ingredients divisions.

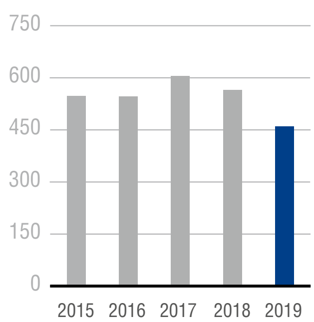
The HOCHDORF Group
HOCHDORF was founded in 1895 and develops, produces and sells high-quality infant formula, food for special medical purposes and milk derivatives at its three sites in Switzerland. HOCHDORF infant formula own brands are marketed via HOCHDORF Swiss Nutrition Ltd and Bimbosan AG. HOCHDORF also runs an oil mill in Germany. HOCHDORF is one of Switzerland's leading food companies and employed over 600 people globally as of 31.12.2019. HOCHDORF's products make an important contribution towards the health and well-being of infants and senior citizens alike. The products are sold to the food industry, wholesalers and retailers and to end users in over 70 countries.

Our 2025 strategy
HOCHDORF is a medium-sized, independent company that operates both in Switzerland and on the international market in the strategic areas of Baby Care and Dairy Ingredients. We stand out on the market as a «BEST PARTNER» by combining traditional Swiss values such as «reliability», «quality» and «precision» with comprehensive customer service, innovation, an understanding of the international market and professional pragmatism – we get things done!

In the future, HOCHDORF will focus more consistently on premium and niche markets and use high-quality infant formula, foods for special medical purposes and milk derivatives to continue to grow both turnover and revenue in Switzerland and on the international markets. Our highly-qualified and committed employees and a mutually trusting relationship with strong partners for raw ingredients, innovative development and marketing are all crucial for our future success. The marketing of our own «Bimbosan» brand in selected international markets has a key role in our strategy.

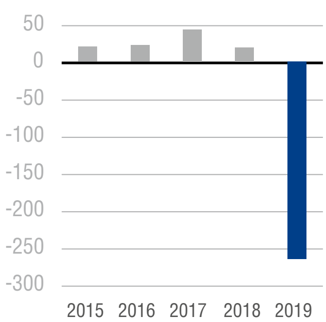
Net sales revenue

CHF million



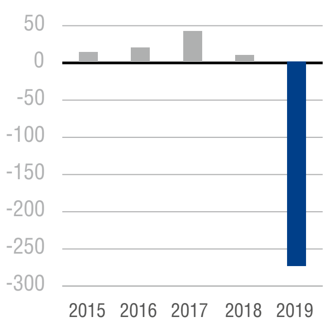
EBIT

CHF million



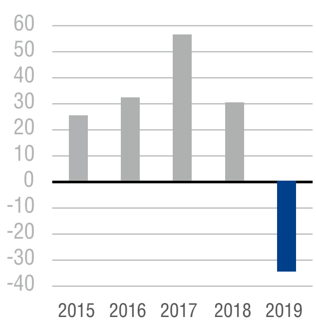
Net profit

CHF million



Earned capital

CHF million



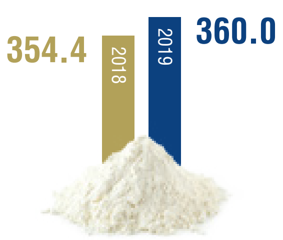
Key figures in the annual report

	2019	2018	2017	2016	2015
Processed milk and whey in tonnes	677,845	661,017	650,017	741,769	761,240
Products sold, in tonnes	162,093	154,609	190,499	237,054	242,821
Total assets (in TCHF)	455,572	575,231	582,270	425,474	340,396
Equity ratio	54.6%	48.8%	53.10%	10.80%	56.60%
Cash flow from operating activities (in TCHF)	–15,430	–81,279	6,019	24,227	19,011
Market capitalisation (in TCHF)	146,296	146,346	410,700	444,417	242,044
Share price as at 31.12. in CHF	83.20	102.00	286.25	309.75	168.70
Earnings per share in CHF	–164.56	2.02	18.43	14.12	11.73
Staffing levels at 31.12.	618	694	695	633	625

Market data

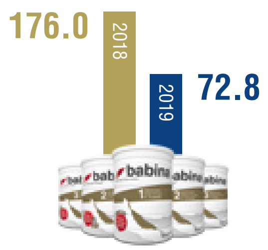
Net sales Dairy Ingredients

CHF million



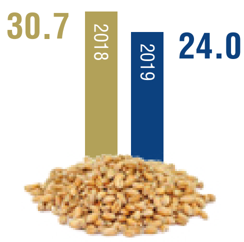
Net sales Baby Care

CHF million



Net sales Cereals & Ingredients

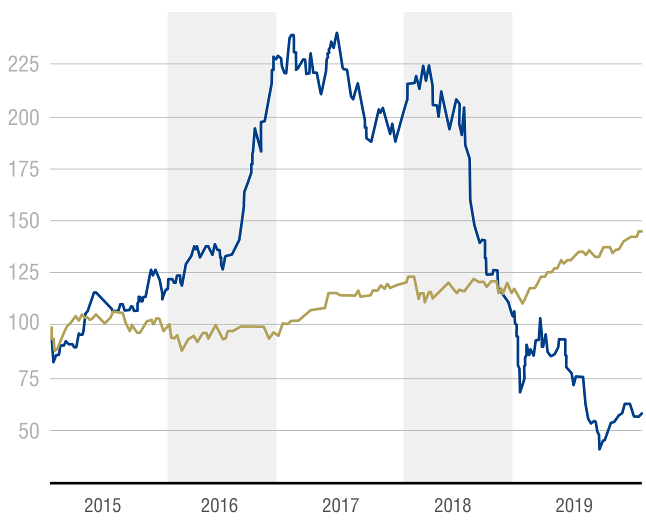
CHF million



Share prices and charts

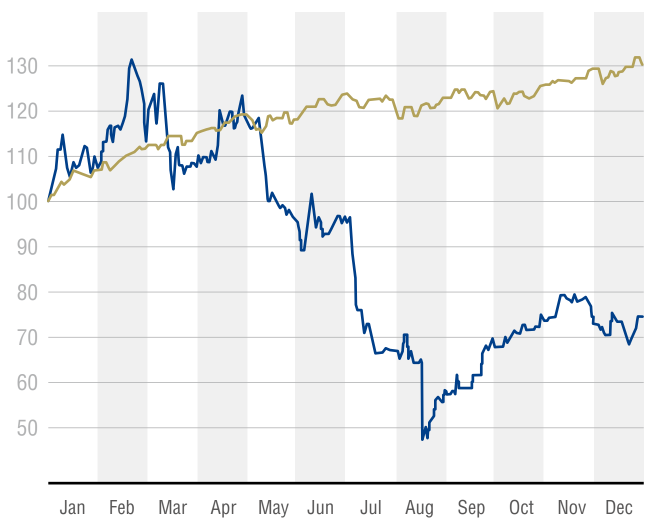
5-year comparison

%



Year comparison

%



HOCHDORF share

Comparison value (SPI)

Dear Shareholders,

In 2019 the HOCHDORF Group experienced what was probably the most challenging business year in its 125 year history. The extension of the syndicated loan and the sale of its 51% holding in Pharmalys Laboratories SA are the two most important transformation measures. In mid-2019, we also announced our realignment to focus on Baby Care and Dairy Ingredients, with the discontinuation of the Cereals & Ingredients division and the strategic review of our foreign subsidiaries. The 2019 financial results are strongly influenced by specific factors. The holding in Pharmalys Laboratories SA was sold at the end of the year. Overall, this results in a loss attributable to shareholders of CHF -239.2 million. In 2020, our anniversary year, we will continue to pursue our chosen path.

In 2019 HOCHDORF processed 677.8 million kg of milk, whey, cream and buttermilk (liquid quantity) (previous year: CHF 661.0 million kg; +2.5%). The liquid quantity processed fell in Switzerland and increased at Uckermärker Milch GmbH. In the infant formula division, in particular, plant utilisation was very low at times.

Page 08
Dairy Ingredients division

Results affected by additional amortisation and value adjustments
Product sales enabled HOCHDORF to achieve net revenues of CHF 456.8 million, which was –18.6% below the previous year's value of CHF 561.0 million. Due to additional amortisations, value adjustments and provisions there is a resulting EBIT of CHF –265.3 million and losses attributable to shareholders of CHF –239.2 million. Further details on the financial indicators can be found in the Financial Report and in the consolidated annual financial statements. On the basis of these very negative results, the Board of Directors proposes to the shareholders that no dividend be paid.

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Income statement
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Financial report
Page 83
Use of available earnings

High amortisations and value adjustments are key factors in the operating results. The largest single amount is the investment loss of CHF 139.9 million incurred on the sale of the Pharmalys investments. For more details on this divestment, see page 63 of the notes to the 2019 consolidated annual financial statements of the HOCHDORF Group. In addition, debt provisions were set up and additional amortisations were made on the assets of subsidiaries and inventories. Value adjustments and provisions were also undertaken for loans to subsidiaries. Details of provisions, value adjustments and additional amortisations are available under section 14 and under «Further notes» in the notes to the 2019 consolidated annual financial statements of the HOCHDORF Group.

Page 63 ff.
Divestment Pharmalys
Page 43 ff.
Notes to the consolidated financial statements

HOCHDORF Group's strategic realignment and restructuring
After its election on 12 April 2019, the new Board of Directors began by establishing an overview of the HOCHDORF Group's general situation. The Group strategy was subsequently subjected to an intensive review. On 8 July 2019 we announced the Group's realignment strategy: HOCHDORF would focus on the Baby Care and Dairy Ingredients business areas in the future. The Cereals & Ingredients division would be discontinued due to a lack of critical size and scalability. Valuable product categories such as non-milk-based special spray products and health supplements would be incorporated into the Dairy Ingredients division, for which, in turn, a new strategy is to be developed by mid-2020. We also decided to undertake a strategic evaluation of all subsidiaries.

Page 08 ff.
Business divisions

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We were able to implement this strategic realignment by the end of 2019. The Cereals & Ingredients division was dissolved and the continuing operations integrated into Dairy Ingredients. HOCHDORF South Africa Ltd was sold in mid-2019. The sale of the 51% holding in Pharmalys Laboratories SA was completed in mid-December 2019. On 26 February 2020, we announced the sale of Uckermärker Milch GmbH. We are still looking for solutions for the remaining foreign subsidiaries and expect these to be completed by mid-2020.

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Divestment HOCHDORF South Africa Ltd
Page 65 ff.
Key figures of discontinued divisions

Financing secured

In the course of the second quarter of 2019, it became clear that the financial indicators required for the syndicated loan could not be met in time for the half-year results. This was due to higher costs and amortisations, lower sales in Baby Care both for Pharmalys and for HSN with third-party customers, as well as high extraordinary value adjustments. As a result, discussions were opened with the syndicate banks at an early stage, resulting in the announcement of the extension to the syndicated loan on 23 October 2019. This runs until the end of September 2023, with the possibility of an extension for a further two years, thus securing the long-term financing of the HOCHDORF Group. However, the associated higher interest expenses will place an additional burden on the company's earnings in the coming years. For more information on financing, see «Valuation Methods» in the notes to the 2019 consolidated annual financial statements of the HOCHDORF Group and section 13 of the same notes.

Page 68
Syndicated loan

Page 56
Long term
financial liabilities

As a result of the provisions and value adjustments, the financial statements of HOCHDORF Holding Ltd in line with Swiss commercial law show that no longer half of the share capital and legal reserves (including capital reserves) are covered (OR 725 para. 1). This position will be adjusted with the conversion of the remaining outstanding mandatory convertible bond into share capital in March 2020.

Outlook

The HOCHDORF Group celebrated its 125 year anniversary on 28 January 2020. The celebrations will be modest given the current situation. A commemorative anniversary publication was produced internally for the special day. This is available online at jubiläum.hochdorf.com. The anniversary publication provides an interesting insight into the HOCHDORF Group's past and present day activities.

In the 2020 anniversary year, we will continue on the strategic path we took in 2019. This will mean completing the restructuring measures and resolutely implementing and developing the strategy in both business areas.

A key focus for the future will be the sustainable business development in the Baby Care division in a highly competitive international environment. Sales and service structures have to be strengthened and market oriented to achieve the required growth and improve utilisation of the Baby Care plants in Sulgen. In 2020 it is vital that we revive the business relationship with Pharmalys and promote the internationalisation of our own «Bimbosan» brand. Business development plays a central role in the future development of the Baby Care division, as the acquisition of new customers involves lengthy and complex approval processes.

Page 10
Outlook Baby Care

The B2B market environment will remain highly competitive for Dairy Ingredients in 2020. We expect the situation in milk procurement and the sales market to remain very challenging as a result of the solution that succeeded the «Schoggi law». The customer and product portfolio established in recent years will be further developed and improved. As key element of this, we will maintain a constant focus on ensuring the best possible plant utilisation to secure the HOCHDORF Group's economic success.

Page 08
Outlook Dairy Ingredients

In conjunction with the Group Management, the Board of Directors will develop a future strategy for both divisions during 2020. Ten focus projects have been defined for 2020 and these will form the basis for HOCHDORF's future strategic positioning. The «OPTIMA» efficiency enhancement programme was launched at the beginning of the year to achieve a reduction in operating costs.

The market situation remains very challenging; with the impact of the coronavirus pandemic difficult to assess at the current time, the Board of Directors and Group Management have agreed a sales and revenue range for the 2020 business year. The HOCHDORF Group is expecting net sales revenue in the region of CHF 280 – 320 million and positive results at the EBITDA level.

We would like to thank you for the loyalty and support you have shown to the HOCHDORF Group. We will do our utmost to provide a solid basis for the company's future and enable HOCHDORF to continue to make history in the industry.

Bernhard Merki
Chairman of the Board of Directors

Dr Peter Pfeilschifter
CEO

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

		2019	2018	2017	2016	2015
Share capital as of 31.12.	TCHF	17,584	14,348	14,348	14,348	14,348
Number of shares as of 31.12.	Unit	1,758,369	1,434,760	1,434,760	1,434,760	1,434,760
Nominal value per share	CHF	10.00	10.00	10.00	10.00	10.00
Profit/loss (–) per share	CHF	–164.56	2.02	18.43	14.12	11.73
Earned capital per share	CHF	–19.80	21.21	39.06	22.45	17.33
Equity per share	CHF	141.58	195.74	215.56	31.92	134.37
Dividend per share	CHF	0.00[1)]	0.00	4.00	3.80	3.70
Peak price	CHF	147.20	314.50	340.00	320.00	178.00
Lowest price	CHF	51.90	94.10	247.80	163.00	107.50
Price at close of trading as of 31.12.	CHF	83.20	102.00	286.25	309.75	168.70
Market capitalisation as of 31.12.	TCHF	146,296	146,346	410,700	444,417	242,044
Average trading volume per day	Unit	3,408	1,840	3,131	2,650	2,312
P/E (price/earnings ratio) as of 31.12.		n. a.	50.4	15.5	21.9	14.4
Dividend return	%	0.00	0.00	1.4	1.23	2.19

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

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Information about the significant shareholders

Dairy Ingredients Division

The strategic realignment in mid-2019 means that Dairy Ingredients forms one of the two key pillars of the HOCHDORF Group. 2019 was initially overshadowed by the successor solution to the «Schoggi law», which came into force on 1 January 2019. The new ruling led to more intensive competition in the domestic market and also to a significant deterioration in our market position in milk procurement: as part of the new regulation, substantial financial support was withdrawn from the export raw material subsidy. The Cereals & Ingredients division was dissolved in the course of 2019 and the continuing operations were integrated into Dairy Ingredients. The product portfolio was further streamlined. Some new, innovative products were also successfully launched onto the market – both domestically and internationally. Despite all the challenges, we were able to successfully defend our leading market position for roller-dried whole milk powder for the Swiss chocolate industry and even develop our position further in important premium areas.

The milk, cream, whey and permeate quantities (liquid quantities) processed in 2019 level was 677.8 million kg (previous year 661.0 million kg), around 2.5% above the previous year. Only Uckermärker GmbH made a contribution towards increasing the production quantity. It reached agreements with several regional direct suppliers to become less dependent on the spot market. In Switzerland, HOCHDORF Swiss Nutrition Ltd (HSN) processed a liquid quantity of 391.4 million kg (previous year 408.9 million kg; –4.3%).

The decline in Switzerland can be explained by the lower milk yield as a result of the dry summer of 2018, the significant fall in sales for Baby Care, the lower milk production in the second half of the year due to the uncertain financial situation as well as the poorer milk prices in competition with industrial cheese making as a result of the follow-on solution from the «Schoggi law». Despite the challenging procurement and financial circumstances, HSN always managed to maintain supply and so defend its market share. HSN was largely able to compensate for the financial consequences of the «Schoggi law», although this was at the significant expense of milk prices paid.

www.hochdorf.com/en/dairy-ingredients

The integration of the Cereals & Ingredients division was largely completed by the end of the year.

Some new, innovative products were developed and successfully brought to market – both domestically and internationally – including a vegan, palm oil-free fat powder and a vitamin D compound.

www.hochdorf.com/en/cereals-ingredients/health-care/

Outlook

The B2B market remains very competitive. We expect milk procurement to remain challenging in 2020 as a result of the follow-on solution to the «Schoggi law». It is therefore important that we continue to optimise our customer and product portfolio. The best possible utilisation of the plants remains a central element of the HOCHDORF Group's economic success.

Following the sale of Uckermärker Milch GmbH at the end of February 2020, we expect net sales revenue for the business year 2020 in the region of CHF 190 to 210 million for Dairy Ingredients.

Baby Care Division

With the strategic realignment in mid-2019, the Baby Care division now forms one of the two key pillars of the HOCHDORF Group, focusing on sustainable business development in a highly competitive, international environment. The key feature of 2019 was a significant dip in sales to some of our major customers, along with technical challenges posed by the activation of the new spray tower line 9 at the Sulgen plant in the second half of the year. Bimbosan AG continued to achieve good results and was able to further expand its leading position in the Swiss specialist market. The conversion to the new EU formulations was also implemented successfully. We were able to win some new customers but the division performed significantly below expectations overall.

The Baby Care division achieved a net sales revenue of CHF 72.8 million in 2019 (previous year 176.0 million; –58.6%). The decrease can be largely explained by a significant fall in sales to some large customers and sluggish sales for the former subsidiary Pharmalys Laboratories SA. A collapse in sales, necessary value adjustments on outstanding receivables and the technical challenges that arose in the second half of the year in connection with the launch of spray tower line 9 at the Sulgen plant all put pressure on operating results.

Lower sales coupled with the technical challenges led to a relatively low utilisation of the new production and filling line in Sulgen. The planned technical renovation of spray tower line 8 was largely completed. This enables the plant to produce new, high-quality formulations that meet the highest quality requirements.

www.hochdorf.com/en/babycare

The development of the new EU formulations was successful and a new product also achieved market readiness in the FSMP segment (food for special medical purposes). The SAMR brand audit for China took place in November 2019. Further discussions are currently underway between the Chinese authorities and the HOCHDORF Group, with the final outcome expected during the first six months of 2020.

Bimbosan AG recorded positive results in 2019 and slightly exceeded expectations, further expanding its strong position in the domestic market. At the end of 2019, its share of the Swiss specialist market was at a new record high of almost 38%. Two new markets were developed as part of the internationalisation of the «Bimbosan» brand.

www.bimbosan.ch/en

Outlook
There will be a key focus on providing sustainable business development in a highly competitive international environment in the future. The goal for 2020 is to promote growth with existing customers and acquire new customers with a market-oriented sales and service structure focused on regions and key customers, while significantly improving plant utilisation in the medium term. The business relationship with Pharmalys Laboratories SA is to be revived with a focus on sustainable growth based on «Swissness» and new market innovations, while the internationalisation of the company's own brand «Bimbosan» will play a central role in the successful implementation of the strategy. Several first-time deliveries to new customers and markets are planned for 2020.

Utilisation of the new plants remains a top priority. We are hoping for prompt approval on completion of the China audits, enabling us to introduce the registered brands onto the Chinese market. This would have a positive impact on plant utilisation and our sales and results. We will also continue to drive forward Cross Border E-Commerce (CBEC) with China for the «Bimbosan» brand.

www.facebook.com/bimbosan

Generating new customers in the Baby Care division is based on long-term projects that usually extend over a two to three year period involving complex approval processes between authorities and customers. It has not been possible to offset the significant drop in sales and results in 2019, even with new customers and the opening up of new markets in the current business year. The Baby Care division expects net sales revenue of around CHF 90 to 110 million in the current business year.

Financial report

2019 – a year of adjustments

HOCHDORF faced a variety of challenges in the 2019 business year. The Board of Directors was largely reconstituted at the 2019 Annual General Meeting. New appointments were also made to Group Management. In economic terms, the difficulties emerging in the 2018 business year with Pharmalys Laboratories SA (Pharmalys) became more acute and presented the Group with existential challenges. It has been possible to secure the Group's financing by extending the syndicated loan. The sale of subsidiaries (particularly Pharmalys) helped to further consolidate the Group's financial position. However, it was still necessary to undertake additional value adjustments to plant, financial assets, receivables and goods in the 2019 financial statement. The Group therefore posted a significant fall in profitability for 2019. HOCHDORF remains in a challenging situation, making it necessary to press ahead with adjustments to its subsidiaries. Lower sales and reductions in revenues meant that net sales fell by 18.6% to CHF 456.8 million. The EBIT amounts to CHF –265.3 million.

The Baby Care division in turn posted low sales in the 2019 business year, particularly for Pharmalys Laboratories SA, but also for HOCHDORF Swiss Nutrition Ltd in its third-party business. Utilisation of both towers in Sulgen is at a low level, which makes this the biggest challenge facing the Group in the future. The Dairy Ingredients division posted stable sales and was a key element in securing the Group's business activities in 2019. However, the market environment remains very challenging. Lower processing volumes and the development in export subsidies (Schoggi Law) in particular exerted pressure on the result. The Board of Directors decided to give up the third business division, Cereals & Ingredients. This resulted in appropriate plant amortisations; the outphasing of customers and products is underway. Bimbosan AG achieved positive results but the picture was more negative for the remaining subsidiaries, with Uckermärker Milch GmbH again posting disappointing results.

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Business division reports

Difficulties in Europe

The market environment in Europe remains largely unchanged compared to last year. The milk market is still characterised by high processing capacities and high milk quantities, with demand remaining the same. The Board of Directors has therefore decided to begin the process of selling Uckermärker Milch GmbH. It has also decided to sell the companies Zifru Trockenprodukte GmbH and Snapz Foods AG.

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Net sales proceeds by regions

Positive outlook on developments in the Middle East/Africa

A positive outlook for development in the Middle East/Africa region remains the main focus of activities in the Baby Care division. Business relations with Pharmalys will be maintained despite the sale of the company. The loss of a significant customer is a source of regret although this was partly offset by the acquisition of some new customers in 2019.

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Caution in Asia

Asia continues to offer the greatest market potential for Baby Care. China in particular is an attractive market of growing significance. In 2019, HOCHDORF succeeded in passing the audits demanded by the Chinese authorities; permission to supply to China should be officially granted in the first half of 2020.

Lower net sales – higher operating expenses
Due to lower sales and the value adjustments undertaken, gross profit has fallen significantly compared to the previous year from CHF 171.8 million to CHF 61.8 million. The gross profit margin is now 14.1% (previous year 30.0%).

Page 39
Consolidated income statement

Operating costs have increased slighted compared to the previous year. Costs incurred are too high compared to sales and volume produced and so appropriate cost cutting initiatives have been implemented. The higher costs at Pharmalys, which are included until deconsolidation at the end of November 2019, also have an impact. Bimbosan AG also represents an additional change, which was only included in the income statement for eight months in 2018. The sale of HOCHDORF South Africa did not have a significant impact. The number of employees fell compared to the previous year from 694 to 618.

Unsatisfactory EBIT
HOCHDORF's operating profitability suffered a significant fall for the reasons outlined above as well as the sale of subsidiaries and the impairments on the fixed assets of subsidiaries. EBIT fell to CHF –265.3 million in the 2019 business year. However, we remain convinced that the general orientation of the Group is correct and that the volume and results can be increased sustainably, particularly in the Baby Care division. The Dairy Ingredients division remains a challenge, especially as a result of the changes to the new «Schoggi Law».

Financial result
The strengthening of the Swiss franc and massively increased interest costs with the banks have led to an overall negative financial result of CHF 8.3 million. Around CHF 2 million is attributable to exchange rate losses. It should also be noted that the interest expense for the mandatory convertible bond and the hybrid bond in the Swiss GAAP FER financial statements will not be recorded in the income statement.

Taxes
In the 2019 business year, no tax credits were created from the losses posted which resulted in a tax expense despite the losses. In addition, the deferred tax provisions at Uckermärker Milch GmbH and Zifru Trockenprodukte GmbH were released due to the planned sales.

Cash flow and financing
Earned capital was reduced from CHF 30.4 million to CHF –34.8 million. The considerably lower operating results have a significant impact in this regard. Compared to the previous year, cash flow from operating activities shows an improvement from CHF –81.3 million to CHF –15.4 million. This is mainly due to the deconsolidation of the Pharmalys companies and the reduction of receivables and inventories. The item Inventories also includes value adjustments due to damage claims.

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Consolidated cash flow statement

Investments of CHF 8.6 million were undertaken in the past business year, focusing mainly on the renewal of production plants. This amount is significantly below the ordinary amortisation. This cautious approach to investment is not sustainable.

Free cash flow was positive again in the 2019 business year. This was mainly due to the net cash flow from the sale of the Pharmalys companies. We expect a positive free cash flow again for 2020.

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Net debt fell from CHF 141.3 million to CHF 113.3 million compared to December 2018. The hybrid bond and the mandatory convertible bond are classed as equity and do not affect net debt.

The equity ratio increased to 54.6% compared to the end of 2018 (48.8%). The main reason for this is the deconsolidation of the Pharmalys companies and the associated repayment of borrowed capital. In addition, there was a fundamental change due to the sale of the Pharmalys companies and the «revival» of the lost goodwill, which was however balanced by the negative overall result. The HOCHDORF Group's financing will improve significantly once it receives the remaining purchase

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Consolidated balance sheet

price from the sale of the Pharmalys companies in 2020. This provides a good foundation for the company's continued growth.

In its current position, HOCHDORF continues to have the potential to achieve further growth. We are aware that political uncertainties in Switzerland and abroad, as well changed market conditions in the most important sales regions, may have an impact on the Group's revenue position.

Jürgen Brandt
CFO

Key figures of the HOCHDORF Group

CHF 1,000	2019	2018	2017	2016	2015
Processed milk and whey in tonnes	677,845	661,017	650,017	741,769	761,240
Quantities produced including cream in tonnes	163,396	141,380	186,845	236,179	241,754
Turnover (net revenue from goods and services)	456,797	561,031	600,527	541,606	543,688
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	**–74,709**	**35,886**	**55,719**	**33,360**	**30,455**
as % of production revenue	–17.0%	6.3%	9.2%	6.1%	5.6%
Earnings before interest and taxes (EBIT)	**–265,309**	**18,649**	**42,616**	**22,464**	**20,146**
as % of production revenue	–60.3%	3.3%	7.1%	4.1%	3.7%
Earnings before taxes	**–273,978**	**10,405**	**45,856**	**22,377**	**15,137**
as % of production revenue	–62.3%	1.8%	7.6%	4.1%	2.8%
Net profit	**–271,393**	**8,656**	**40,846**	**19,406**	**13,024**
as % of production revenue	–61.7%	1.5%	6.8%	3.6%	2.4%
Personnel expenses	**50,757**	**52,980**	**51,000**	**47,796**	**46,227**
as % of production revenue	11.5%	9.2%	8.4%	8.8%	8.5%
Depreciation of tangible assets	**47,891**	**13,030**	**12,336**	**10,386**	**9,972**
as % of average net cash position	17.1%	4.4%	5.1%	5.6%	6.2%
Investments in fixed assets	**8,449**	**34,924**	**84,788**	**42,217**	**22,211**
as % of production revenue	1.9%	6.1%	14.0%	7.8%	4.1%
Earned Capital	**–34,821**	**30,425**	**56,035**	**32,213**	**24,870**
in % of net sales revenue	–7.6%	5.4%	9.3%	5.9%	4.6%
Cash flow from operating activities (cash flow)	**–15,430**	**–81,279**	**6,019**	**24,227**	**19,011**
as % of net sales revenue	–3.4%	–14.5%	1.0%	4.5%	3.5%
Free cash flow (loss)	16,537	–148,530	–84,078	–33,519	–3,736
Equity ratio	54.6%	48.8%	53.1%	10.8%	56.6%
Interest cover (EBIT/interest expenses net)	n.a.	1.6	8.8	19.2	11.0
Number of shares, outstanding, in units	1,758,369	1,434,760	1,434,760	1,434,760	1,434,760
Earnings/loss (–) per share in CHF	–164.56	2.02	18.43	14.12	11.73
Earned Capital per share in CHF	–19.80	21.21	39.06	22.45	17.33
Dividend	0%	0%	0%	38%	37%
Payout ratio	0.00%	201.74%	21.51%	27.35%	39.26%
Share price as at 31.12. in CHF	83.20	102.0	286.25	309.75	168.70
Dividend return	0.00%	3.92%	1.40%	1.23%	2.19%
Price/earnings (P/E) ratio	n.a.	50.4	15.5	21.9	14.4
Market capitalisation	146,296	146,346	410,700	444,417	242,044
Staffing levels as at 31.12.	618	694	695	633	625

Risk report

Risk management and risk policy
Risk management provides important support in protecting and securing future potential. The general risk awareness of the management team and employees is increased by annual risk assessments. The HOCHDORF Group has a risk management system for all Group companies.

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

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

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

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

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

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

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

Internal control system

The internal control system (ICS) is expanded and improved continuously. Its role is to continually optimise business activities and to ensure the necessary processes and instruments for identifying and controlling risks. The system complies with the statutory requirements in Switzerland and is satisfactory for the needs of a company the size of HOCHDORF. The ICS for the HOCHDORF Group was developed on the basis of the COSO framework. Besides the controls related to complying with the strategic and operating objectives and compliance with the rules, the ICS was primarily designed for risks related to financial reporting in all Group companies. The compliance and effectiveness of the ICS is regularly checked in the internal audit. Furthermore, the external auditors undertake adequate audit procedures in order to assess whether there is an ICS. They confirm this in their audit report.

Internal audit

The internal audit of the HOCHDORF Group is outsourced and carried out by PricewaterhouseCoopers with the support of experts from the finance and accounting departments. The internal audit supports the Board of Directors in the handling of its monitoring and controlling tasks, particularly at the subsidiaries. The internal audit provides an independent and objective audit and advisory service that is focused on generated added value and improving business processes. It helps the company to achieve its goals by assessing the effectiveness of the risk management, the controls and the management and monitoring processes with a systematic and targeted approach and by improving them.

The internal audit, in cooperation with the Audit Committee, prepares a strategic audit plan at regular intervals, which is presented to the Board of Directors for approval in each case. On the basis of the multi-year plan, an operational audit plan is established by the internal audit detailing the planned audits over the next year. This is presented to the Audit Committee for approval. In addition, the Board of Directors may assign special projects to the internal audit.

A written audit report is produced by the internal audit after each completed audit. It contains the findings and recommendations of the internal audit, as well as the statement by Management containing the planned measures and the time required for the completion of these measures. Group Management checks the implementation of the defined measures and keeps the Audit Committee continually informed.

In the reporting year, the internal auditors did not take part in any meeting of the Board of Directors and did take part in one Audit Committee meeting. The external auditors receive information on the audit plan and the audit activities of the internal auditors as well as the audit reports. The internal auditors have access to the reports of the external auditors.

Corporate Governance

Corporate Governance

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

1. Group structure and shareholders

1.1. Group structure as at 31 December 2019
The Group structure of the HOCHDORF Group (hereinafter referred to as HOCHDORF) is detailed on the following page. All shareholdings are listed on page 44 of the Annual Report, including their registered office, share capital and shareholding ratio. Apart from HOCHDORF Holding Ltd, which is listed, the scope of consolidation consists exclusively of non-listed subsidiaries. The purpose of the Group structure is to provide the best possible support for the company's business activities within an efficient legal, financial and strategic framework. The structure should be as simple as possible and also be transparent for outside parties.

1.2. Significant shareholders
Significant shareholders with more than 3% of the voting rights are listed on page 80 of the Annual Report. Various notifications were received in the reporting period in accordance with Article 120 of the Swiss Financial Market Infrastructure Act (FinMIA). Innovent AG, Wollerau, and the Weiss family, Wollerau, form a group in line with Article 120 and own 4.65% of the capital and voting rights (previous year 5.35%). The disclosure notifications in connection with shareholdings in HOCHDORF Holding Ltd are published on the electronic publication platform of SIX Swiss Exchange and can be accessed via the search page of the disclosure office using the following Web link: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

HOCHDORF Holding Ltd is not aware of any other shareholders or groups of shareholders that held 3% or more of the total voting rights of HOCHDORF Holding Ltd as at 31 December 2019.

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

2. Capital structure

2.1. Share capital
As at 31.12.2019, the share capital consisted of 1,758,369 registered shares (securities number 2 466 652 / ISIN CH0024666528) of a nominal value of CHF 10. The share capital is fully paid up. Each share is equivalent to one vote. There are no preferential rights. The company has issued neither dividend-rights certificates nor profit participation certificates.

2.2. Conditional and approved capital
As at 31 December 2019, HOCHDORF Holding Ltd had conditional share capital amounting to a nominal total of no more than CHF 3,937,710 or no more than 393,771 registered shares of a nominal value of CHF 10. This is reserved for the outstanding mandatory convertible bond that runs from 30.03.2017 to 30.03.2020.

As at 31 December 2019, HOCHDORF Holding Ltd had no approved capital.

2.3. Capital changes
An overview of capital changes can be found on page 44 of the Annual Report.

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

HOCHDORF Holding Ltd
6281 Hochdorf
CHF 17,583,690

100 %	**HOCHDORF Swiss Nutrition Ltd** 6281 Hochdorf **CHF 30,000,000**
100 %	**Marbacher Ölmühle GmbH** DE-71672 Marbach **EUR 2,000,000**
65 %	**Snapz Foods USA Inc.** US-19801 Wilmington, Delaware **USD 50,000**
56.47 %	**Thur Milch Ring AG** 8272 Ermatingen **CHF 170,000**
100 %	**Bimbosan AG** 4716 Welschenrohr **CHF 350,000**
100 %	**Schweiz. Milch-Gesellschaft AG** 6281 Hochdorf **CHF 100,000**
60 %	**HOCHDORF Americas Ltd** UY-11000 Montevideo **UYU 3,283,200**
26 %	**Ostmilch Frischdienst Magdeburg GmbH** DE-39179 Meitzendorf **EUR 25,000**
26 %	**Ostmilch Handels GmbH & Co Frischdienst Oberlausitz KG** DE-09661 Schlegel **EUR 51,129.20**
100 %	**Zifru Trockenprodukte GmbH** DE-02763 Zittau **EUR 200,000**
65 %	**Snapz Foods AG** 6281 Hochdorf **CHF 100,000**
60 %	**Uckermärker Milch GmbH** DE-17291 Prenzlau **EUR 10,000,000**
26 %	**Ostmilch Handels GmbH** DE-61348 Bad Homburg **EUR 1,000,000**

registered shares are entered in the share register as shareholders with voting rights, on request, provided that they expressly declare that they have acquired the registered shares in their own name for their own account. If the buyer is not prepared to make such a declaration, the Board of Directors may refuse the entry with voting rights. The recording limit is 15% of the voting rights.

2.5 Mandatory convertible bond
In 2017, HOCHDORF Holding Ltd issued a mandatory convertible bond for a nominal amount of CHF 218.49 million. The interest rate is 3.5% for the entire term from 30.03.2017 to 30.03.2020. The conversion period runs from 03.01.2018 to 13.03.2020. The conversion price is CHF 304.67. A nominal figure of CHF 5,000 authorises the subscription of 16.41 HOCHDORF Holding Ltd registered shares. Fractions are paid out in cash. By 31.12.2019, a nominal CHF 98,595,000 had been converted, for which a total of 323,609 registered shares were issued. Thus, a nominal CHF 119,895,000 is still outstanding.

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

3. Board of Directors

3.1. Members of the Board of Directors
In 2019, the Board of Directors of HOCHDORF Holding Ltd consisted of seven, or five respectively, non-executive members. No member of the Board of Directors previously belonged to Group Management, and no member has any material business relationship with the issuer or one of the issuer’s group companies.

The members were elected by the Annual General Meeting for a term of one year, expiring at the time of the next ordinary Annual General Meeting. Re-election is possible. Current members of the Board of Directors who are nominated for re-election, any new members of the Board of Directors and the Chair are elected on individual ballots. All elections and votes are conducted openly, unless a majority requests a secret ballot. The retirement age for members of the Board of Directors is 70. They leave the Board of Directors at the next Annual General Meeting after turning 70. In the reporting period, the Board of Directors underwent the following changes. Prof Holger Karl-Herbert Till and

Dr Anton von Weissenfluh submitted their notice of resignation, effective as of the 2019 Annual General Meeting. Dr Daniel Suter and Niklaus Sauter were voted out of office at the 2019 General Meeting. Michiel de Ruiter and Ulrike Sailer announced their resignations as of 30.09.2019. The following were elected as members of the Board of Directors at the 2019 Annual General Meeting: Bernhard Merki, Jörg Riboni, Markus Kalberer and Markus Bühlmann.

Name	Born	Nationality	Member since	Elected in	Elected until
Bernhard Merki, Chair	1962	Switzerland	2019	2019	2020
Jörg Riboni, Vice Chair	1957	Switzerland	2019	2019	2020
Markus Kalberer	1967	Switzerland	2019	2019	2020
Markus Bühlmann	1962	Switzerland	2019	2019	2020
Dr Walter Locher	1955	Switzerland	2014	2019	2020

3.2. Professional background and other activities and interests

Bernhard Merki

1962; **Place of residence:** Wangen SZ; **Member of the Board of Directors since:** 2019, Chair since 2019. **Training/degree:** Degrees in mechanical engineering (Masch. Ing. HTL)/industrial engineering (Wirtsch. Ing. STV). **Professional background:** 1988 to 2013, various management positions at Netstal Group, Näfels, most recently from 2003 to 2013 as CEO; 2014 to 2018, CEO of 4B Ltd, Hochdorf. **Professional activity:** Since 2019, independent entrepreneur with consulting activities. **Other activities:** Since 2008 member of the University Council of the Hochschule für Technik, (University of Applied Sciences) Rapperswil; since 2010, member of the Board of Directors of Rondo Burgdorf Ltd and Seewer Holding AG; since 2014, member of the Board of Directors of EMS-Chemie-Holding AG; since 2019, member of the Board of Directors of Ferrum AG.

Jörg Riboni

1957; **Place of residence:** Steinhausen ZG; **Member of the Board of Directors since:** 2019. Vice Chair since: 2019. **Training/degree:** Degree in economics (lic. oec.HSG)/certified public accountant. **Professional background:** 1995 to 1997 CFO of Jelmoli, Zurich;1997 to 2005 CFO of the Sarna Group, Sarnen; 2005 to 2012, CFO of the Forbo Group, Baar; 2013 to 2019 CFO of the Emmi Group, Lucerne. **Professional activity:** Self employed since May 2019. **Other activities:** Chair or member of the Board of Directors of various privately-held companies.

Markus Bühlmann

1962; **Place of residence:** Rothenburg; **Member of the Board of Directors since:** 2019. **Training/degree:** Master farmer with advanced specialist qualification. **Professional background:** Federal VET diploma in agriculture; master farming certificate. **Professional responsibilities:** 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.

Markus Kalberer

1967; **Place of residence:** Gattikon ZH; **Member of the Board of Directors since:** 2019 **Training/ degree:** Degree in Business Administration (Betr. oec FH). **Professional background:** 1995 to 2004 employed in various management positions in Swiss financial institutions; 2004 to 2014, CEO of the Condecta Group, Winterthur. **Professional activity:** CEO of Lenzlinger Sons Ltd, Nänikon. **Other activities:** Since 2008, co-owner and member of the Board of Directors of Gottlieber Spezialitäten AG, Gottlieben.

Dr. Walter Locher

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

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

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

3.3. Functioning of the Board of Directors

The Board of Directors meets at least five times each year and as often as business requires. In 2019, the Board of Directors met for seven regular meetings and 15 extraordinary meetings. In addition, the Chair of the Board of Directors meets with the CEO for work sessions. The CEO and the CFO participate in meetings of the Board of Directors on all agenda items in an advisory capacity. When required, the Board of Directors also invites external specialists and other members of the Group Management or other employees for advice on specific topics. The Board of Directors is responsible for the strategic direction of the company, supervision of Group Management and financial control. The Board of Directors monitors the company objectives and identifies opportunities and risks. It also appoints the members of Group Management. The Board of Directors has 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.

3.4. Committees of the Board of Directors

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

Audit Committee
Members: Jörg Riboni (Chair), Markus Kalberer, Dr Walter Locher. The main tasks of this committee are:

- Checking the effectiveness of the external and internal audits and of the internal control
- Evaluating management directives with regard to financial risks and adherence to these directives
- Discussing financial statements with the CFO and the head of external audits
- Evaluating the performance and remuneration of the auditors and their independence
- Evaluating the performance and remuneration of the internal auditors and their independence
- Evaluating the risk management procedure

In 2019, the Audit Committee met ten times. In addition to the standard agenda items, a special audit was conducted by the outsourced Internal Audit (PWC) as part of risk management, covering the area of Pharmalys Order Management.

Personnel and Remuneration Committee
Members: Dr Walter Locher (Chair), Bernhard Merki, Jörg Riboni. The main tasks of this committee are:

- Making 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 contracts for the members of the Group Management

The Personnel and Remuneration Committee met six times.

Market and Strategy Committee
Members: Markus Bühlmann (Chair), other members not yet appointed. 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

The Market and Strategy Committee met two times.

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

- Overall control of the company and the Group, including the definition of medium and long-term strategies and planning objectives, as well as the guidelines for company policy and the issuing of required directives
- Defining the basic organisation of the company and its associated regulations
- Defining the guidelines for the organisation of accounting systems, financial monitoring and financial planning
- Appointment and dismissing persons entrusted with the Group Management and representation of the company, namely the CEO, and issuing signature authorisations
- Supervising the organs entrusted with the management of the company, specifically with regard to adherence to laws, statutes, regulations and directives
- Creating the Annual Report; preparing for the Annual General Meeting and implementing its decisions
- Informing the legal authorities in the case of insolvency
- Determining capital increases and the corresponding amendments to the Articles of Association

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

- Annual and investment budgets
- Annual and half-yearly financial statements
- Group organisational chart up to and including the Group Management level
- Wage policy
- Assessment of the main risks

- Investments outside the budget of more than CHF 0.5 million
- Multi-year financial and liquidity planning
- Strategy-relevant partnerships and agreements, in particular the purchase and sale of investments, companies, parts of companies, business branches and rights to products or intellectual property rights
- Foundation and dissolution of companies
- Nomination of candidates for the Boards of Directors for the attention of the Annual General Meeting
- Election of the members of the Boards of Directors of the subsidiaries
- Group regulations of strategic importance

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

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:

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

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

3.6. Information and control instruments with regard to Group Management

At all the meetings, the Chair, the Committee Chairs, the CEO, the CFO and, depending on the agenda item, other members of the Group Management inform the Board of Directors on matters concerning the business development, financial situation and key business occurrences. The Chair is regularly informed by the CEO. The Board of Directors receives all the minutes of the Group Management meetings. Extraordinary events are promptly communicated to the members of the Board of Directors via circular.

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

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

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

The Audit Committee evaluates the effectiveness of internal and external control systems, as well as the risk management organisation and process in HOCHDORF. The outsourced internal auditor PriceWaterhouseCoopers Ltd and the external auditor Ernst & Young Ltd, who are in direct contact with the Chair of the Audit Committee, constitute further information and control systems.

4. Group Management

4.1. Members of the Group Management
As at 31 December 2019, Group Management consisted of Dr Peter Pfeilschifter (CEO), Jürgen Brandt (CFO), Christoph Peternell (COO), and Managing Director Baby Care, Frank Hoogland. The Dairy Ingredients and Cereals & Ingredients divisions are managed directly by the CEO.

4.2. Professional background and other activities and interests

Dr Peter Pfeilschifter

1965, German citizen; **Place of residence:** Müswangen LU, Eberbach (Germany). **Position:** CEO since 2019, Managing Director Dairy Ingredients since 2018. **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 to1997 Senior Consultant, Coopers & Lybrand, Essen and Munich (Germany); 1997 to 2003 various leadership roles at ABB Schweiz AG, Baden and Zurich (Switzerland); 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); since 2017 Managing Director at Uckermärker Milch GmbH, Prenzlau (Germany). **Other activities**: Board of Directors of the HOCHDORF subsidiaries; Managing Director Uckermärker Milch GmbH, Prenzlau (Germany), Marbacher Ölmühle GmbH, Marbach (Germany) and Zifru Trockenprodukte GmbH, Zittau (Germany); Chair of the Board of Trustees for the pension fund for HOCHDORF Swiss Nutrition Ltd, Member of the German Senate of Economy since 2016.

Jürgen Brandt

1956, Swiss and German citizen; **Place of residence:** Forch ZH. **Position:** CFO since 2019. **Training/degree:** Degree in industrial engineering (Dipl.-Wi.-Ing) (FH), Esslingen (Germany). **Professional background:** 1995 to 2006 CFO of various companies in different European countries; 2007 to 2010 CFO of Austrian Energy & Environment Group (Austria); 2010 to 2014, CFO of Sulzer AG, Winterthur (Switzerland); since 2015 independent entrepreneur with consulting activities. **Other activities:** Since 2013, member of the Board of Directors and Chair of the Audit Committee at Bobst Group SA, Mex (Switzerland); Member of the Board of Directors Belimed Life Science Ltd, Sulgen (Switzerland).

Christoph Peternell

1965, German citizen; **Place of residence:** Zug, Constance (Germany). **Position:** COO since June 2015. **Training/degree:** Graduate food engineer (Diplom), University of Hohenheim (Germany). **Professional background:** 1994 to 2005 Head of the Production Unit and member of the extended management, Molda AG (Germany); 2005 to 2008 Managing

Director Plant Operations and Head of Operations, Fresh Start Bakeries INC. (Germany); 2008 to 2015 various national and international mandates as independent interim Operations Manager of food enterprises. **Other activities:** Board of Trustees of the pension fund for HOCHDORF Swiss Nutrition Ltd.

Frank Hoogland

1972, Dutch citizen; **Place of residence:** Horgen ZH. **Position:** Managing Director Baby Care, since January 2017. **Training/degree:** MAS in Business Economics with major in marketing & market research at Tilburg University, Netherlands. **Professional experience:** Until 2001 Product Business Manager, Philips N.V. (Netherlands); 2001 to 2003 Manager Private Label, Laurus N.V. (retail) (Netherlands); 2003 to 2007 International Marketing Manager, Friesland Foods N.V., Asia-Pacific, Middle East & Africa; 2007 to 2012 Marketing Director, Hero AG, Benelux and China; 2012 to 2015 Business Development Director Infant Formula, Fonterra in China; 2015 to 2016 Head of Global Marketing & Sales, HOCHDORF Swiss Nutrition Ltd (Switzerland). **Other activities:** None.

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

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

5. Compensation, participations, loans

The relevant information can be found in the remuneration report.

6. 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/.

6.1. Restrictions to voting rights and proxy voting
All shareholders recorded in the shareholder register with voting rights are entitled to attend and vote at the Annual General Meeting. The restriction on voting rights amounts to 15% of the share capital. Any shareholder can give written authority to a fellow shareholder or appoint an independent proxy to vote at the Annual General Meeting on his or her behalf. There is no statutory quorum.

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

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

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

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

request that the Board of Directors calls a General Meeting and/or that an item be added to the agenda.

6.5. Entries in the share register

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

7. Change of control and defensive measures

7.1. Duty to make an offer

The Articles of Association of HOCHDORF Holding Ltd do not contain any opting-out or opting-up clauses within the meaning of Article 125 FinfraG with respect to the statutory duty to submit a takeover offer.

7.2. Change-of-control clauses

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

8. Auditor

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

The Annual General Meeting elects the auditor for terms of one year each. Ernst & Young Ltd, Lucerne, was elected auditor of HOCHDORF Holding Ltd for 2019. Ernst & Young Ltd has been the auditor since 2014. Christoph Michel has been the chief auditor since 2018.

8.2. Audit fee

Calculated on an accrual basis, the expenses of the auditor Ernst & Young Ltd for the audit of the individual financial statements and the consolidated financial statements for 2019 amounted to approximately TCHF 320.

8.3. Additional fees

Additionally, expenses of TCHF 3 are included in the reporting period for consulting services of Ernst & Young Ltd.

8.4. Instruments for supervising and controlling the audit

The Audit Committee of the Board of Directors assesses the performance, invoicing and independence of the external auditors and makes recommendations to the Board of Directors. Every year, the Audit Committee checks the scope of the external audits, the audit plans and the relevant processes and discusses the audit results with the external auditors. In 2019, the chief auditor attended two meetings of the Audit Committee.

9. Information policy

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

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

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

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

› Investor relations:
http://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

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

In 2019 several changes to shareholdings took place at HOCHDORF Holding Ltd and had to be reported.

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The Annual General Meeting will take place on 30 June 2020. Shareholders recorded in the share register will receive an invitation to the Annual General Meeting by mail.

The next business results (Interim Report 2020) will be published on Monday, 17 August 2020.

Remuneration

Remuneration Report

The remuneration report summarises the key principles that determine the remuneration of the Board of Directors and Group Management and also explains the structure and extent of compensation.

HOCHDORF places great importance on recruiting, 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. Remuneration is designed in such a way as to create incentives that benefit the long-term development of the company. Performance evaluations are conducted on a qualitative basis through annual employee review meetings at which personal targets and performance are assessed in general terms, as well as according to quantitative criteria, which are derived from the current financial results.

Ordinance Against Excessive Compensation (ERCO)

Pursuant to the Ordinance Against Excessive Compensation (ERCO), the Annual General Meeting decides on the remuneration of the Board of Directors and Group Management. The Articles of Association contain a summary of the remuneration principles.

- Article 19, Remuneration of the Board of Directors, provides that the Annual General Meeting approves the total remuneration from the date of the Annual General Meeting until the next ordinary Annual General Meeting.
- Pursuant to Article 23, Remuneration of Group Management, the Annual General Meeting approves the total amount of the remuneration for the current year.

Decision-making responsibilities

Topic	Recommendation by	Approval by
Maximum total amount of remuneration to be paid to the Board of Directors	Board of Directors	Annual General Meeting
Maximum total amount of remuneration to be paid to Group Management	Board of Directors	Annual General Meeting
Individual remuneration of the members of the Board of Directors	Personnel and Remuneration Committee	Board of Directors
Fixed remuneration paid to Group Management (subsequent year)	Personnel and Remuneration Committee	Board of Directors
Variable remuneration paid to Group Management (subsequent year)	Personnel and Remuneration Committee	Board of Directors
Remuneration Report	Personnel and Remuneration Committee	Board of Directors

Each year, the Annual General Meeting separately votes on the proposed resolutions of the Board of Directors concerning the maximum total amounts of remuneration to be paid to the Board of Directors for the period until the next ordinary Annual General Meeting and the remuneration to be paid to Group Management for the current year. The Annual General Meeting votes on the remuneration report on an advisory basis.

Remuneration of the Board of Directors

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

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

The remuneration includes a base amount for all members of the Board of Directors, a supplementary payment for work as Chair or Vice Chair, as well as flat-rate remuneration for work on committees and for expenses. Special expenses incurred by individual members of the Board of Directors may be reimbursed at a separate daily rate. They must be approved by the Board of Directors and are subject to the approval of the Annual General Meeting (Art. 14 para. 2 ERCO).

The figures show the amounts actually paid out in the reporting period. The members of the Board of Directors are not covered by the pension fund. At the meeting of the Personnel and Remuneration Committee on 19 November 2019 it was decided that the fees would only be paid in cash and that payment of 20% of the fees without expenses in the form of shares in HOCHDORF Holding Ltd would be waived.

Remuneration of the Board of Directors in CHF	Remuneration	Special expenses	Social contributions	Expenses	2019	2018
Bernhard Merki, Chair, PRC; as of 12.04.2019	104,792	58,500	15,390	3,542	182,224	n. a.
Jörg Riboni, Vice Chair, AC, PRC; as of 12.04.2019	82,458	74,250	22,338	3,542	182,588	n. a.
Markus Kalberer, AC; as of 12.04.2019	58,958	12,000	8,696	3,542	83,196	n. a.
Markus Bühlmann, MSC; as of 12.04.2019	38,958	0	5,746	3,542	48,246	n. a.
Dr Walter Locher, AC, PRC	98,917	0	14,589	5,000	118,506	93,645
Dr Daniel Suter, Chair, AC; until 12.04.2019	42,146	0	6,178	1,458	49,782	170,402
Dr Anton von Weissenfluh, Vice Chair, PRC; until 12.04.2019	22,458	0	3,312	1,458	27,228	93,074
Michiel de Ruiter, MSC; until 30.09.2019	48,375	0	7,135	3,750	59,260	78,776
Ulrike Sailer, MSC; until 30.09.2019	46,875	0	6,913	3,750	57,538	76,488
Niklaus Sauter, PRC, AC; until 12.04.2019	23,188	0	3,420	1,458	28,066	95,933
Prof Holger Karl-Herbert Till, MSC; until 12.04.2019	18,229	0	2,689	1,458	22,376	76,660
Total	**585,354**	**144,750**	**96,406**	**32,500**	**859,010**	**684,978**

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

The Annual General Meeting on 12 April 2019 approved a total amount of CHF 700,000 for the current term of office until the 2020 AGM. The total amount will be exceeded due to additional committee meetings and special expenses in 2019. These special expenses are tasks which lie outside the Board of Directors' activities in the operational area, but which could not be performed by the General Management in the context of the special situation in which the Group found itself. It is proposed to the Annual General Meeting that the difference of CHF 159,010 above the approved total amount be subsequently approved at the 2020 AGM.

Remuneration of Group Management

The compensation paid to members of Group Management in 2019 consisted of a fixed basic salary and variable, performance-related remuneration, with the variable remuneration for each position based on the consolidated EBIT of the Group after minority interests or, for the heads of the divisions, the EBIT of the respective division after minority interests. There is an upper limit to the variable remuneration for all members of Group Management. It totals a maximum of twice the amount of the basic salary not including expenses. Hence, the total of the basic remuneration and the variable remuneration may not exceed 3 times the basic salary not including expenses. Total compensation also includes retirement benefits, service benefits, and benefits in kind. The Board of Directors defines the details in its remuneration regulations. There are no share or option plans or similar shareholding programmes at HOCHDORF. 30% of the variable remuneration is paid in the form of HOCHDORF Holding Ltd shares, which are subject to a three-year holding period. They are allocated at the volume-weighted average price of all transactions on the SIX on the day before allocation. If a person leaves the Group Management, the shares are freely available immediately. With effect from 1 January 2020, the Board of Directors has agreed new remuneration regulations which will no longer include a partial payment of variable compensation in the form of shares.

The Board of Directors sets the amount of the emoluments paid to Group Management. In so doing, it relies on the recommendation and proposed resolution of the Personnel and Remuneration Committee. The Board of Directors defines the range of total compensation and the strategic targets. As is the case with the other members of the Group Management, the compensation of the former CEO, Dr Thomas Eisenring, consisted of a fixed basic salary and a variable, performance-related component. The variable component for the former CEO amounted to 2.0% of the consolidated EBIT for HOCHDORF after minority interests, whereby this must amount to at least CHF 3.5 million. The employment contract with Dr Thomas Eisenring was terminated as of 30 September 2019. No variable remuneration will be paid as a result of negative results.

For the other members of Group Management, the general achievement of personal targets, as well as company results, forms the basis for the decision on compensation for the business year 2019. Variable remuneration is individual-specific. Depending on the business division and the position, it amounts to up to 0.5% of the consolidated EBIT for HOCHDORF after minority interests, whereby this must amount to at least CHF 3.5 million, or between 0.6% and 3.5% of the EBIT generated by the individual's business division after minority interests. No variable remuneration will be paid as a result of negative results.

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

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

Remuneration paid to the CEO and Group Management

Remuneration paid to the CEO and Group Management	Group Management total		CEO	
In CHF (gross)	2019	2018	2019	2018
Basic salary 1)	1,533,041	1,832,981	456,004	608,005
Variable remuneration 3)	100,000	481,269	0	228,857
Social contributions, including employee pension	353,810	511,411	118,296	173,070
Other benefits 2)	117,000	152,500	21,000	28,500
Total	**2,103,851**	**2,978,161**	**595,300**	**1,038,432**
Number of members of Group Management	5	5		

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

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

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

The compensation for the CEO only includes the compensation for the previous CEO Dr Thomas Eisenring. The compensation for Dr Peter Pfeilschifter is fully included in the total Group Management cost.

The Annual General Meeting on 12 April 2019 approved a total amount of CHF 3,200,000 for the 2019 reporting year. This total amount will not be exceeded.

In 2019, the Group Management changed as follows:

- Dr Thomas Eisenring CEO; departure on 11 March 2019; continued salary payment until 30 September 2019
- Dr Peter Pfeilschifter CEO; assumption of interim role from 11 March 2019; fully in position from 19 December 2019; retention of the role as Managing Director Dairy Ingredients
- Marcel Gavillet CFO; release from role on 15 November 2019
- Jürgen Brandt CFO; appointment commencing on 18 November 2019

Proposal to the General Meeting

The proposed total amounts create the necessary entrepreneurial flexibility to be able to react to changes (additional members on the Board of Directors and Group Management, changes in committees, special events, general reserve). There is no intention to exhaust the framework amounts. Pursuant to Article 23 of the Articles of Association, the company or companies controlled by it are authorised to pay each member who joins Group Management or is promoted within Group Management after the time at which the total amount of fixed remuneration is approved by the Annual General Meeting an additional amount if the remuneration previously approved is insufficient for his or her remuneration. For each remuneration period, the additional amount may not exceed 30% of the most recently approved maximum amount of fixed remuneration for Group Management.

From 1.1.2020, the compensation paid to the new CEO, Dr Peter Pfeilschifter comprises a fixed basic salary and a variable component of a maximum of CHF 120,000. This variable component is determined on the basis of individual performance and conduct targets in accordance with the remuneration regulations of the Board of Directors of HOCHDORF Holding Ltd. The variable salary component of a maximum of CHF 120,000 is determined in the spring of the following year after the Chair of the Board of Directors has made an assessment of performance and conduct targets and after the annual financial statements have been audited. The variable component is paid out in cash.

Board of Directors

Approval of the total sum of the fixed remunerations for the Board of Directors to a maximum of CHF 600,000 for the business year 2020.

Group Management

Approval of the total sum of the fixed and variable remunerations for the Board of Directors to a maximum of CHF 2,000,000 for the business year 2020.

Change-of-control clauses

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

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

The personnel changes in the Group Management in the reporting period are listed above. The remuneration owed to former members of Group Management in the reporting period has been accrued accordingly. The following changes took place in the Board of Directors in 2019: Dr Anton von Weissenfluh and Prof Dr Holger Karl-Herbert Till tendered their resignation as members of the Board of Directors at the Annual General Meeting on 12 April 2019. Dr Daniel Suter and Niklaus Sauter were voted out of office as members of the Board of Directors at the Annual General Meeting on 12 April 2019. Michiel de Ruiter and Ulrike Sailer announced their resignation as members of the Board of Directors as of 30 September 2019. The compensation paid to them is listed above. Bernhard Merki, Jörg Riboni, Markus Kalberer and Markus Bühlmann were elected as new members of the Board of Directors at the Annual General Meeting on 12 April 2019.

In advance of the 2020 Annual General Meeting, the members of the Board of Directors Bernhard Merki, Jörg Riboni, Markus Kalberer and Dr Walter Locher have announced that they will no longer stand for re-election.

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		2019	2018
Bernhard Merki	Chair, PRC; as of 12.4.2019	5	n. a.
Jörg Riboni	Vice Chair, AC, PRC, as of 12.4.2019	0	n. a.
Markus Kalberer	AC; as of 12.4.2019	10	n. a.
Markus Bühlmann	MSC; as of 12.4.2019	0	n. a.
Dr Walter Locher	AC, PRC	1,713	1,713
Dr Daniel Suter	Chair, AC; until 12.4.2019	n. a.	895
Dr Anton von Weissenfluh	Vice Chair, PRC; until 12.4.2019	n. a.	1,809
Michiel de Ruiter	MSC; until 30.9.2019	n. a.	225
Ulrike Sailer	MSC; until 30.9.2019	n. a.	233
Niklaus Sauter	PRC, AC until 12.4.2019	n. a.	620
Prof Holger Karl-Herbert Till	MSC; until 12.4.2019	n. a.	339
Total		**1,728**	**5,834**

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

Group Management		2019	2018
Dr Peter Pfeilschifter	CEO a.i. as of 11.3.2019, CEO from 19.12.2019, Managing Director Dairy Ingredients	257	63
Jürgen Brandt	CFO as of 18.11.2019	0	n. a.
Christoph Peternell	COO	658	170
Frank Hoogland	Managing Director Baby Care	482	290
Dr Thomas Eisenring	CEO until 8.3.2019	n. a.	2,309
Marcel Gavillet	CFO until 14.11.2019	n. a.	1,802
Total		**1,397**	**4,634**

Additional fees and remuneration

In the reporting year no additional fees and remunerations were paid to the Board of Directors or to the Group Management or parties closely linked to them, with the exception of the aforementioned special expenses to individual members of the Board of Directors.

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

Loans are fundamentally never granted to members of the Board of Directors, the CEO, Group Management, or employees of HOCHDORF. During the reporting period, no collateral (loan guarantees, other guarantees, etc.) was granted. Neither HOCHDORF Holding Ltd nor any other Group company has waived any claims against a member of the Board of Directors or Group Management.

Loans/collateral to related parties

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

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 18 March 2020

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of HOCHDORF Holding Ltd. for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 30 to 35 of the remuneration report.

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

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2019 of HOCHDORF Holding Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Christoph Michel
Licensed audit expert
(Auditor in charge)

Roman Ottiger
Licensed audit expert

Annual financial statement

HOCHDORF Group 37–74

HOCHDORF Holding Ltd 75–86

Consolidated balance sheet as at 31 December

		2019 CHF	in %	2018 CHF	in %
Assets					
Cash and cash equivalents	1)*	20,432,282	4.5%	30,784,059	5.4%
Accounts receivables	2)*	31,929,712	7.0%	70,453,883	12.2%
Accounts receivables from related parties	2)*	10,139,011	2.2%	48,686,091	8.5%
Accounts receivables from associated companies	2)*	7,118,571	1.6%	1,711,357	0.3%
Other receivables from related parties	2)*	64,190,851	14.1%	77,988	0.0%
Other short-term receivables	2)*	3,238,232	0.7%	6,599,803	1.1%
Inventories	3)*	41,619,620	9.1%	67,372,914	11.7%
Accrued income	4)*	4,027,053	0.9%	27,831,064	4.8%
Current assets		**182,695,331**	**40.1%**	**253,517,159**	**44.1%**
Property and plant		89,984,524	19.8%	112,656,883	19.6%
Other fixed assets		168,974,350	37.1%	189,188,522	32.9%
Total fixed assets	5)*	**258,958,875**	**56.8%**	**301,845,404**	**52.5%**
Shareholdings	6)*	2,496,352	0.5%	2,407,793	0.4%
Financial assets	7)*	9,979,191	2.2%	12,467,515	2.2%
Intangible assets	8)*	1,442,071	0.3%	4,992,636	0.9%
Non-current assets		**272,876,488**	**59.9%**	**321,713,349**	**55.9%**
Total assets		**455,571,819**	**100.0%**	**575,230,508**	**100.0%**
Liabilities					
Trade payables	9)*	37,109,928	8.1%	54,412,979	9.5%
Trade payables to related parties	9)*	3,599,176	0.8%	4’483’895	0.8 %
Trade payables to associated companies	9)*	671,801	0.1%	452’608	0.1 %
Short-term financial liabilities	10)*	12,329,798	2.7%	14,379,104	2.5%
Other short-term liabilities to related parties	11)*	162,589	0.0%	9,536,514	1.7%
Other short-term liabilities	11)*	5,150,870	1.1%	15,006,630	2.6%
Short-term provisions	14)*	4,903,055	1.1%	0	0.0 %
Accrued liabilities and deferred income	12)*	4,526,775	1.0%	12,976,211	2.3%
Current liabilities		**68,453,992**	**15.0%**	**111,247,942**	**19.3%**
Long-term financial liabilities	13)*	121,438,574	26.7%	157,711,436	27.4%
Long-term financial liabilities to related parties	13)*	0	0.0%	6,860,000	1.2%
Long-term financial liabilities to associated companies	13)*	869,600	0.2%	0	0.0 %
Provisions	14)*	15,856,435	3.5%	18,564,274	3.2%
Non-current liabilities		**138,164,609**	**30.3%**	**183,135,710**	**31.8%**
Share capital		17,583,690	3.9%	14,347,600	2.5%
Own shares		–7,105,418	–1.6%	–7,350,646	–1.3%
Capital reserves		179,723,881	39.5%	85,433,251	14.9%
Mandatory convertible bond		110,772,696	24.3%	198,935,822	34.6%
Hybrid capital		107,588,513	23.6%	107,588,513	18.7%
Profit reserves		84,739,884	18.6%	–148,468,206	–25.8%
Minority interests		–5,135,459	–1.1%	27,515,816	4.8%
Earnings current year		–239,214,569	–52.5%	2,844,707	0.5%
Shareholders’ equity	15)*	**248,953,218**	**54.6%**	**280,846,857**	**48.8%**
Total liabilities and equity		**455,571,819**	**100.0%**	**575,230,508**	**100.0%**

*Explanations in the notes

Consolidated income statement

		2019 CHF	In %	2018 CHF	In %
		01.01.19 – 31.12.19		01.01.18 – 31.12.18	
Net sales revenue	16)*	**456,796,873**	**103.9%**	**561,030,694**	**97.9%**
Other operating income	17)*	1,493,247	0.3%	2,699,855	0.5%
Change in inventories of semi-finished and finished products		–18,634,785	–4.2%	9,059,012	1.6%
Production revenue		**439,655,334**	**100.0%**	**572,789,560**	**100.0%**
Cost of materials and goods		–377,852,840	–85.9%	–400,969,787	–70.0%
Gross operating profit		**61,802,494**	**14.1%**	**171,819,773**	**30.0%**
Personnel expenses	18)*	–50,757,056	–11.5%	–52,980,451	–9.2%
Other operating expenses	19)*	–85,754,471	–19.5%	–82,953,152	–14.5%
Total operating expenses		**–136,511,528**	**–31.0%**	**–135,933,602**	**–23.7%**
EBITDA		**–74,709,034**	**–17.0%**	**35,886,170**	**6.3%**
Depreciation of fixed assets		–47,891,135	–10.9%	–13,030,333	–2.3%
Amortisation of intangible assets		–3,707,670	–0.8%	–1,357,063	–0.2 %
Impairment of investments		–139,001,465	–31.6%	–2,849,490	–0.5%
EBIT		**–265,309,304**	**–60.3 %**	**18,649,284**	**3.3%**
Income from associates and joint ventures	20)*	353,737	0.1%	413,358	0.1%
Financial result	20)*	–8,691,513	–2.0%	–8,551,563	–1.5%
Earnings before taxes		**–273,647,080**	**–62.2%**	**10,511,079**	**1.8%**
Non-operating result	21)*	11,297	0.0%	–8,746	0.0%
Extraordinary result	22)*	–342,582	–0.1%	–97,426	0.0%
Earnings before taxes		**–273,978,365**	**–62.3%**	**10,404,907**	**1.8%**
Income taxes	23)*	–2,585,418	–0.6%	–1,748,788	–0.3%
Net profit		**–271,392,946**	**–61.7%**	**8,656,119**	**1.5%**
Attributable to:					
Parent company shareholders		–239,214,569	–54.4%	2,844,707	0.5%
Minority interests		–32,178,377	–7.3%	5,811,412	1.0%
Net profit		**–271,392,946**	**–61.7%**	**8,656,119**	**1.5%**
Earnings per share (basic)	24)*	**–164.56**		**2.02**	
Earnings per share (diluted)	24)*	**–164.56**		**1.39**	

*Explanations in the notes

Consolidated cash flow statement

	2019 CHF	2018 CHF
	01.01.19 – 31.12.19	01.01.18 – 31.12.18
Net profit	–271,392,961	8,656,123
Depreciation of fixed assets and amortisation of intangible assets	51,598,820	14,387,395
Impairment of investments	139,001,465	2,849,490
Currency effect on investment sales	302,162	3,017,328
Net interest expense	6,951,432	2,107,765
Other non-cash adjustments	4,980,200	–2,273,428
Change in short-term provision	4,903,055	0
Change in long-term provisions	28,583,122	1,345,966
Accounting losses (profits) from sales of fixed assets	340,651	102,914
Income from associates and joint ventures	–88,558	231,316
Cash flow from operating activities before changes in working capital	**–34,820,611**	**30,424,870**
As % of net sales revenue	–7.62%	5.42%
Change in trade receivables	–30,743,628	10,573,477
Change in trade receivables from related parties	38,531,527	–4,587,979
Change in trade receivables from associated companies	–5,454,464	–212,993
Change in other short-term receivables	3,319,993	4,363,638
Change in other short-term receivables from related parties	–4,124,066	–77,834
Change in inventories	19,400,790	–10,619,709
Change in accrued income	23,488,027	–6,148,931
Change in trade payables	–16,911,498	–15,332,847
Change in trade payables to related parties	–884,719	0
Change in trade payables to associated companies	219,193	0
Change in other short-term liabilities	–9,536,685	–2,599,168
Change in other short-term liabilities to related parties	4,036,537	–84,282,752
Change in accrued liabilities and deferred income	–1,950,278	–2,778,505
Change in net current assets	**19,390,668**	**–111,703,601**
Cash flow from operating activities	**–15,429,943**	**–81,278,732**
As % of net sales revenue	–3.38%	–14.49%
Investments in fixed assets	–8,448,639	–34,923,708
Divestments of fixed assets	–90,935	31,287
Investments in intangible assets	–185,546	–592,098
Divestments of intangible assets	0	0
Investments in/divestments of long-term financial assets	3,140,448	–106,538
Net cash flow from the purchase (–) / sale (+) of shareholdings	37,541,383	–31,661,208
Interests and dividends received	10,653	927
Cash flow from investing activities	**31,967,364**	**–67,251,337**
Free Cashflow	**16,537,421**	**–148,530,069**
As % of net sales revenue	3.62%	–26.47%

Continuation of consolidated cash flow statement

	2019 CHF	2018 CHF
	01.01.19 – 31.12.19	01.01.18 – 31.12.18
Change in short-term financial liabilities	8,309,126	10,204,052
Change in long-term financial liabilities	–18,708,652	118,357,205
Additions/disposals of minority interests in capital and profit	–16,609	–6,484
Mandatory convertible bond	1,607,927	0
Capital increase including conversion of convertible bond	–963,623	–6,749
Change in capital of subsidiaries	37,500	–15,304
Sale (purchase) of own shares net cash flow	235,447	2,381,731
Interest paid	–17,319,249	–9,554,865
Dividend payments	0	–5,598,980
Cash flow from financing activities	**–26,818,134**	**115,760,605**
Currency translation	–71,065	–306,882
Net change in cash and cash equivalents	**–10,351,778**	**–33,076,346**
Cash and cash equivalents at 1 January	30,784,059	63,860,406
Cash and cash equivalents at 31 December	**20,432,281**	**30,784,059**

Consolidated statement of changes in equity

	Share capital	Own shares	Capital reserves	Hybrid capital	Retained earnings	Accumulated currency translation differences	Total excl. minority interests	Minority interests	Total including minority interests
	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF	TCHF
Equity as at 31.12.2017	**14,348** [1]	**–8,571**	**288,947**	**107,589**	**–119,064** [2]	**–3,034**	**280,214**	**29,068**	**309,282**
Change in the scope of consolidation					–3,016	3,016	0	0	0
Goodwill from acquisition of shares of subsidiaries					–25,775		–25,775	0	–25,775
Allocation of capital contributions to free reserves			–5,739		5,739		0		0
Capital increase			0		–7		–7	–6	–13
Mandatory convertible bond							0		0
Hybrid bond							0		0
Acquisition of own shares		–1,135					–1,135		–1,135
Sale of own shares		2,356	1,162				3,517		3,517
Currency translation differences					0	–728	–728	–497	–1,226
Dividends					–5,599		–5,599	–6,860	–12,459
Net profit from current period					2,845		2,845	5,811	8,656
Equity as at 31.12.2018	**14,348** [1]	**–7,351**	**284,369**	**107,589**	**–144,877** [2]	**–747**	**253,331**	**27,516**	**280,847**
Change in the scope of consolidation					238,764	308	239,072	–523	238,549
Goodwill from acquisition of shares of subsidiary					–13		–13	0	–13
Allocation of capital contributions to free reserves							0		0
Conversion mandatory convertible bond	3,236		94,395				97,631		97,631
Capital increase			0				0		0
Mandatory convertible bond			–88,163		–8,824		–96,987		–96,987
Hybrid bond							0		0
Acquisition of own shares							0		0
Sale of own shares		245	–105				141		141
Currency translation differences						128	128	51	179
Dividends							0		0
Net profit from current period					–239,215		–239,215	–32,178	–271,393
Equity as at 31.12.2019	**17,584** [1]	**–7,105**	**290,497**	**107,589**	**–154,165** [2]	**–310**	**254,089**	**–5,135**	**248,953**

[1] 1,758,369 registered shares of a nominal value of CHF 10.00 each; each share corresponds to one vote; the maximum entry limit in the share register is 15% of the votes.
[2] Thereof non-distributable legal reserves TCHF 10,172 (previous year: TCHF 10,172).

Shareholders >3%	Share	Prior year
Amir Mechria, Zug	18.34%	<3.00%
Stichting General Holdings, Amsterdam	17.64%	4.23%
ZMP Invest AG, Lucerne	12.23%	14.51%
Family Weiss and Innovent Holding AG, Wollerau	4.65 %	5.35%
Taaleri Plc., Helsinki	<3.00%	3.14%
Gruppe Maurer, Hunzenschwil	<3.00%	3.04%

Contingent capital

The Group has contingent capital in the nominal amount of CHF 3,937,710 corresponding to 393,771 registered shares at a nominal value of CHF 10 each, which is connected to the outstanding mandatory convertible bond.

Changes

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

Notes to the 2019 consolidated financial statements of the HOCHDORF Group

Principles of consolidation

General information
The HOCHDORF Group prepares its consolidated financial statements in compliance with all existing guidelines of Swiss GAAP FER (Swiss accounting and reporting recommendations) and the provisions of Swiss law. The consolidated annual financial statements reflect the actual status of the Group's asset, financial and revenue position. The consolidated annual financial statements are based on the principle of historical purchase cost or production cost or current values and based on the annual financial statements for the Group companies as at 31 December 2019, prepared according to uniform principles. The consolidated financial statements are prepared in Swiss francs (CHF).

Consolidation principles

Scope of consolidation/consolidation method
The consolidated annual financial statements of the HOCHDORF Group comprise the annual financial statements of the HOCHDORF Holding Ltd holding company as well as all subsidiaries in which there is a capital-relevant and vote-relevant majority or where control over the financial and business policy is exercised through contractual agreement. Shareholdings with 20% to 50% of the voting rights are accounted for using the equity method. Financial statements or reconciliations with Swiss GAAP FER are used to determine the proportionate equity. The consolidated individual financial statements for the companies are adapted to the standard Group structure and evaluation regulations and entered in accordance with the full consolidation method. 100% of the assets and liabilities as well as expenses and revenues are included in the consolidated annual financial statement and all intercompany transactions are eliminated. Significant interim profits within the Group are considered in this elimination.

The share of the minority shareholders in the company's own share capital and results is shown separately in the Group balance sheet and income statement.

Capital consolidation
For capital consolidation, assets and liabilities on holdings are evaluated at the time of the takeover according to standard Group principles (purchase method). Any remaining surplus/shortfall (goodwill/badwill) of this revaluation is offset against equity. Companies sold during the year are excluded from the consolidated financial statements from the date of sale. If shares in fully consolidated companies or companies accounted for using the equity method are sold, the difference between the disposal proceeds and the proportionate carrying amount, including goodwill/badwill, is recognised as a gain or loss on the income statement.

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

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

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.

	Income statement average exchange rates		Balance sheet; end-of-year exchange rates	
	2019	2018	31.12.2019	31.12.2018
1 EUR	1.1120	1.1522	1.0870	1.1269
1 USD	0.9927	0.9768	0.9684	0.9858
1 TND	n. a.	0.3699	n. a.	0.3294
1 UYU	0.0282	0.0319	0.0259	0.0304
1 ZAR	n. a.	0.0740	n. a.	0.0685

Cash flow statement

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

Overview of Group companies and associated companies

Consolidated companies	Location	Function	Currency	Capital in thousands 31.12.2019	Capital share 31.12.2019	Capital share 31.12.2018
HOCHDORF Holding Ltd	Hochdorf, Switzerland	Holding	CHF	14,348	100%	100%
HOCHDORF Swiss Nutrition Ltd	Hochdorf, Switzerland	Production	CHF	30,000	100%	100%
Schweiz. Milch-Gesellschaft AG	Hochdorf, Switzerland	Shell company	CHF	100	100%	100%
Marbacher Ölmühle GmbH	Marbach, Germany	Production and trade	EUR	2,000	100%	100%
Uckermärker Milch GmbH	Prenzlau, Germany	Production	EUR	10,000	60%	60%
HOCHDORF Americas Ltd	Montevideo, Uruguay	Trade	UYU	3,283	60%	60%
HOCHDORF South Africa Ltd [1]	Cape Town, South Africa	Production	ZAR	n. a.	n. a.	90%
Pharmalys Africa S.à.r.l. [3]	Tunis, Tunisia	Marketing	TND	n. a.	n. a.	51%
Pharmalys Laboratories SA [3]	Hochdorf, Switzerland	Trade	CHF	n. a.	n. a.	51%
Pharmalys Tunisie S.à.r.l. [3]	Sousse, Tunisia	Production	TND	n. a.	n. a.	51%
Snapz Foods AG	Hochdorf, Switzerland	Trade	CHF	100	65 %	65%
Zifru Trockenprodukte GmbH	Zittau, Germany	Production	EUR	200	100%	100%
Bimbosan AG	Welschenrohr, Switzerland	Production and trade	CHF	350	100%	100%
Snapz Foods USA Inc.	Delaware USA	Trade	USD	50	65%	65%
Thur Milch Ring AG [2]	Ermatingen, Switzerland	Trade	CHF	170	56.47%	n. a.

1) Sold as of 30.06.2019

2) Purchase as of 01.01.2019

3) Sold as of 06.12.2019, closing 13.12.2019

Associated companies	Location	Function	Currency	Capital in thousands 31.12.2019	Capital share 31.12.2019	Capital share 31.12.2018
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%

Valuation methods

General information

The accounting is carried out based on the assumption of the continuation of operational activities. Assets are measured at cost taking into account the necessary value adjustments. Liabilities are recognised at nominal value. All identifiable loss risks and depreciations are offset by value adjustments or deferrals. Expense and income items are accrued periodically.

Cash and cash equivalents as well as securities without shareholding character

Cash and cash equivalents include cash and deposits on postal and bank accounts, as well as short-term time deposits with a remaining time of less than three months. They are recognised at their nominal value. Securities are measured at the market value on the balance sheet date. The remaining securities are balanced at acquisition value or at a lower market value.

Accounts receivable

Receivables are measured at nominal value less value adjustments. Identifiable individual risks are taken into account with appropriate value adjustments. Indications for possible impairment are given if payment is delayed, the customer is experiencing financial difficulties or recapitalisation or bankruptcy is likely. The value adjustments for doubtful accounts receivable are established based upon the difference between the nominal value of accounts receivable and the estimated net collectible amount. The amount of the respective estimated loss is recognised in the income statement within the item «Specific valuation adjustment on accounts receivables». As soon as a receivable becomes uncollectable it is written off and charged against the item «Accounts receivable losses». For this purpose, the following value adjustment approaches are applied, which can be deviated from in justified cases:

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

Inventories
Raw materials, operational materials and auxiliary materials are measured at the lower of cost or market. Semi-finished and finished products are measured at production cost, including the direct material and production unit costs as well as material costs and production overheads. Appropriate value adjustments are undertaken for goods with a low rate of inventory turnover.

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

Inventory turnover rate	Value adjustment
Under 0.5 times	25.0% of the purchase or manufacturing costs (PMC)
0.5 – 1 times	12.5% of the purchase or manufacturing costs
Over 1 – 1.5 times	5.0% of the purchase or manufacturing costs
Over 1.5 – 3 times	2.5% of the purchase or manufacturing costs
Over 3 times	0% of the purchase or manufacturing costs

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

For semi-finished and finished products:

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

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

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

Interim profits on internal Group inventories are eliminated if significant.

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

Prepayments and accrued income as well as accrued liabilities and deferred income
Accruals and deferrals are recognised at their nominal value.

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

Tangible assets
Tangible assets are measured at the acquisition cost less economically necessary depreciation. If there are indications of impairment, a DCF valuation is performed at the appropriate level of the cash-generating unit. Permanent impairments are taken into account. Depreciation is calculated on a straight line basis from the purchase value. All acquisitions over a value of CHF 5,000 are deemed investments. Projects in progress are capitalised as current investment projects and are not depreciated. Interests on assets under construction are not capitalised. Fixed assets are written down over the following useful lives.

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

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

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

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

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

Equity/hybrid bond
The hybrid bond is a perpetual subordinated bond. The hybrid bond has its first call date after five-and-a-half years. This is the first possible call date in the case of the bond for HOCHDORF. If this is not exercised, the amount of interest payable increases (step-up of 2.5%). The hybrid bond is classified for the most part as equity. The issuing costs were deducted from the issue price. The obligations for the interest payable are discounted for the first five-and-a-half years (first call date) from the issue date. The conditions for the syndicated loan provide a basis of comparison for the interest rate. The discounted interest obligations are shown under short-term and long-term financial liabilities in accordance with their maturities. The interest payable is offset against the corresponding financial liabilities. Only the accrued interest of the relevant business year is recognised in interest expenses.

Equity/mandatory convertible bond
The mandatory convertible bond is a bond that does not give the bondholder any voting rights. The bond will be converted into shares of HOCHDORF Holding Ltd as a mandatory requirement at the latest at the end of its term on 30 March 2020. The mandatory convertible bond is classified for the most part as equity. The issuing costs are recognised in equity via the capital reserves. The obligations for the interest payable are discounted from the issue date. The conditions for the syndicated loan provide a basis of comparison for the interest rate. The discounted interest obligations are shown under short-term and long-term financial liabilities in accordance with their maturities. The interest payable is offset against the corresponding financial liabilities. Only the accrued interest of the relevant business year is recognised in interest expenses.

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

The sale of HOCHDORF South Africa Ltd took place on 30.06.2019. The sale of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l. took place on 06.12.2019 with closing on 13.12.2019. These sales lead to corresponding changes in the individual balance sheet items. The acquisition of 56.47% of Thur Milch Ring AG took place on 01.01.2019. The values are therefore only somewhat comparable with the previous year overall.

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

TCHF	2019	2018
Cash	17	15
Post account	608	725
Bank account	19,132	29,611
Short-term investments	675	433
Total	**20,432**	**30,784**

2. Accounts receivable

TCHF	2019	2018
Accounts receivables from third parties	44,264	70,454
Minus provision for doubtful accounts	–12,334	0
Short-term receivables from related parties	10,139	48,686
Accounts receivables from associated companies	7,118	1,711
Other receivables	3,238	6,600
Other receivables from related parties	64,191	78
Total	**116,616**	**127,529**

Diversification means there is no concentration of credit risk with regard to accounts receivable. The other receivables mainly result from credit from welfare institutions and from government bodies (VAT, Directorate General of Customs). Other receivables from related parties include the majority of payments still outstanding due to the sale of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l.

3. Inventories

TCHF	2019	2018
Raw materials, packaging materials, operating materials	9,685	14,439
Finished and semi-finished products, trade goods	46,376	54,435
Heating oil	151	458
Value adjustments for inventories	–14,592	–1,959
Total	**41,620**	**67,373**

The value adjustment for inventories primarily includes the depreciation of the warehouse due to the damage in Sulgen and customer-specific value adjustments.

4. Accrued income

TCHF	2019	2018
As at 31 December	**4,027**	**27,831**

The accrued income is comprised of revenues not yet received as well as costs paid in advance. The reduction compared to the prior year primarily results from the completed «Schoggi Law» payments.

5. Tangible assets

TCHF	Property, plant 1)	Equipment, warehouse equipment, fixed equipment	Machines, production appliances, furnishings	Office equipment, IT systems, communication, fittings	Vehicles	Current investment projects 2)	Total
Net accounting value 01.01.2018	**90,468**	**38,342**	**63,608**	**8,417**	**874**	**83,285**	**284,994**
Purchase value							
As at 01.01.2018	**173,552**	**73,385**	**158,908**	**23,199**	**2,732**	**83,285**	**515,061**
Change in scope of consolidation 4)	5,267	–3,846	–3,447	–150	–343	0	–2,519
Additions	0	165	426	8	44	34,289	34,932
Disposals	0	–17	–72	–28	–525	0	–642
Reclassification 3)	25,319	23,923	52,323	2,369	224	–104,158	0
Currency differences	–2,162	–460	–1,579	–50	–26	–80	–4,357
As at 31.12.2018	**201,976**	**93,150**	**206,559**	**25,348**	**2,106**	**13,336**	**542,475**
Accumulated depreciation							
As at 01.01.2018	**83,084**	**35,043**	**95,300**	**14,782**	**1,858**	**0**	**230,067**
Change in scope of consolidation 4)	4,188	–1,637	–1,899	–98	–297	0	257
Disposals	0	0	–64	–28	–415	0	–507
Depreciation	2,923	3,166	4,962	1,793	193	0	13,037
Currency differences	–876	–312	–992	–25	–20	0	–2,225
As at 31.12.2018	**89,319**	**36,260**	**97,307**	**16,424**	**1,319**	**0**	**240,629**
Net accounting value as at 31.12.2018	**112,657**	**56,890**	**109,252**	**1**	**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 5)	–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 3)	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 5)	–259	–22	–337	–13	–17	0	–648
Disposals	–41	–407	–2,004	–173	–156	0	–2,781
Depreciation	3,499	5,138	8,038	2,159	164	0	18,998
Currency differences	–780	–268	–880	–27	–6	0	–1,961
As at 31.12.2019	**91,738**	**40,701**	**102,124**	**18,370**	**1,304**	**0**	**254,237**
Net accounting value 31.12.2019	**108,606**	**57,292**	**108,733**	**7,720**	**732**	**4,120**	**287,203**

1) The Group holds available, undeveloped parcels of land that are part of the developed land.

2) The current investment projects are plants under construction.

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

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

5) In the context of the sale of the Thur Milch Ring AG holding 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.

6) Remaining depreciation and dismantling costs of plants that will be shut down in Hochdorf in 2020 (Niro 2 and 3 as well as wheat germ) and impairment on the fixed assets of Uckermärker Milch GmbH, Zifru Trockenprodukte GmbH and Snapz Foods AG, as these companies will be sold or liquidated.

Of which assets subject to financial leasing

TCHF	Total	Open instalments
Net accounting value 01.01.2019	**7,870**	**3,136**
Purchase value		
As at 01.01.2019	**9,927**	**3,136**
Additions	394	395
Disposals incl. instalments	–748	–2,047
Currency differences	–19	–9
As at 31.12.2019	**9,554**	**1,475**
Accumulated depreciation		
As at 01.01.2019	**2,057**	**0**
Depreciation	523	0
Disposals	–401	
Currency differences	–5	0
As at 31.12.2019	**2,172**	**0**
Net accounting value as at 31.12.2019	**7,382**	**1,475**

6. Associated companies

Associated companies	Location	Function	Currency	Capital in thousands 31.12.2019	Shareholding 31.12.2019 TCHF	Shareholding 31.12.2018 TCHF
Ostmilch Handels GmbH	Bad Homburg, Germany	Trade	EUR	1,000	2,351	2,292
Ostmilch Handels GmbH & Co. Frischdienst Oberlausitz KG	Schlegel, Germany	Logistics	EUR	51	0	0
Ostmilch Frischdienst Magdeburg GmbH	Meitzendorf, Germany	Trade	EUR	25	145	116
					2,496	2,408

7. Financial assets

TCHF	2019	2018
Securities	37	30
Loans	150	0
Value adjustments for loans	–42	0
Deferred tax assets	2,763	4,178
Assets from employer contribution reserves	7,071	8,259
Total	**10,021**	**12,467**

The deferred tax assets result from existing carried forward losses in the tax balance sheet. For the companies Uckermärker Milch GmbH and Zifru Trockenprodukte GmbH, no tax assets were capitalised on the 2019 losses. 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 profits within the statutory period. In addition, the tax assets still available in the previous year at HOCHDORF Swiss Nutrition Ltd and Snapz Foods AG were released. With the adoption of the tax reform, the tax rates have been adjusted accordingly (see explanatory remarks in point 23).

Taxable losses carried forward after expiration (cantonal tax)

Taxable losses carried forward after expiration TCHF	2019	2018
2024 and later	97,005	20,188
Total	**97,005**	**20,188**

Taxable losses carried forward after expiration (federal tax)

Taxable losses carried forward after expiration TCHF	2019	2018
2024 and later	304,517	20,188
Total	**304,517**	**20,188**

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 32,653 for federal tax and a deferred tax asset of TCHF 15,015 for cantonal tax.

Pension plans

TCHF Employer contribution reserve	Nominalvalue 31.12.2019	Renounced use 31.12.2019	Balance sheet 31.12.2019	Creation per 2019	Balance sheet 31.12.2018	Result of the committee of works and staff councils in personnel expenses 2019	 2018
HGR pension fund	7,071	0	7,071	177	8,259	–1,365	0

The posting of interest from employer contribution reserves through pension plans appears as a credit in the financial revenues. Interest of 2.25% (previous year 2.25%) was calculated on the employer contribution reserves in 2019. Since 01.05.2019, employer contributions are no longer paid to the pension fund, but offset against the employer contribution reserves.

TCHF Economic benefit/economic liability and pension expenditure	Credit/debit balance 31.12.2019	Economic share of the organisation 31.12.2019	 31.12.2018	Change from the previous year	Contributions accrued for the period	Pension expenditure in personnel expenses 2019	 2018
HGR pension fund	15,314	0	0	–81	2,204	2,204	2,288

8. Intangible assets [1)]

TCHF	Software	Brands	Others intangible assets	Current projects	Total
Net accounting value as at 01.01.2018	**1,632**	**3,403**	**544**	**185**	**5,764**
Purchase value					
As at 01.01.2018	**3,370**	**3,520**	**700**	**185**	**7,775**
Additions	113	0	0	479	592
Disposals	–3	0	0	0	–3
Reclassifications	445	0	0	–445	0
Currency differences	–29	0	0	0	–29
As at 31.12.2018	**3,896**	**3,520**	**700**	**219**	**8,335**
Accumulated depreciation					
As at 01.01.2018	**1,738**	**117**	**156**	**0**	**2,011**
Disposals	–3	0	0	0	–3
Depreciation	513	704	140	0	1,357
Currency differences	–22	0	0	0	–22
As at 31.12.2018	**2,226**	**821**	**296**	**0**	**3,343**
Net accounting value as at 31.12.2018	**1,670**	**2,699**	**404**	**219**	**4,992**
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 [2)]	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**

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

2) Depreciation of the residual value of the Snapz brand and impairment at Uckermärker Milch GmbH and Zifru Trockenprodukte GmbH due to the planned sale of the companies in 2020.

9. Trade payables

TCHF	2019	2018
To third parties	37,110	54,413
To related parties	3,599	4,484
To associated companies	672	452
Total	**41,381**	**59,349**

10. Short-term financial liabilities

TCHF	2019	2,018
Other financial liabilities [1]	5,107	12,479
Leasing liabilities	1,223	1,897
Bank loans [2]	6,000	3
Total	**12,330**	**14,379**

1) Including discounted interest amounts from the convertible bond and the hybrid bond for 2020; see explanatory remarks in point 15. The discounting amounts for the mandatory convertible bond were adjusted accordingly due to the conversions already effected for a nominal value of CHF 98,595,000.

2) Tranche B of the syndicated loan is to be amortised by CHF 6 million by 31.12.2020.

11. Other short-term liabilities

TCHF	2019	2018
To related parties [1]	163	9,537
Other short-term liabilities [2]	2,615	11,537
Employee overtime	127	345
Employee holiday credits	466	676
Salary accounts (salary payments, profit-sharing, AHV, SUVA, health insurance, etc.)	469	1,211
Government bodies (taxes, source taxes, value added taxes)	1,473	1,238
Total	**5,313**	**24,544**

1) Decrease due to deconsolidation of the Pharmalys companies and lower commission settlements with Phamena FZE in Dubai.

2) The largest items under short-term liabilities are advance payments for customers and payments to the Swiss Milk Sector Organisation (BOM) for the fund contributions from milk suppliers collected in December. In contrast to previous years, the new «Schoggi Law» allowed billing at the end of the business year.

12. Accrued liabilities and deferred income

TCHF	2019	2018
As at 31 December	**4,527**	**12,976**

The deferred income mainly comprises accruals in the context of reimbursements and commissions («Schoggi Law») as well as invoices not yet received for goods receipts and other supplier services (power, water, transport). In contrast to previous years, the new «Schoggi Law» allowed billing at the end of the business year.

13. Long-term financial liabilities

TCHF	2019	2018
Mortgages, loans 1)	375	417
Leasing liabilities	252	1,152
Bank loans	111,870	142,311
To related parties	0	6,860
To associated companies	870	0
Other financial liabilities 2)	8,941	13,831
Total	**122,308**	**164,571**

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

2) Including discounted interest amounts from the hybrid bond for 2021 and subsequent years; see explanatory remarks in point 15.

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

Position	Book value TCHF	Due date	Interest rate
Syndicated loan	104,000	08.11.2023.	from 1.00% to 5.50%
Bank loans – short term	3,000	2020	from 4.00% to 6.80%
Bank loans – long term	10,870	>2021	from 1.50% to 7.11%
Geiger loan	375	>2021	from 0.58% to 1.69%
Leasing – short term	1,223	2020	from 1.85% to 5.34%
Leasing – long term	252	2021	from 1.85% to 5.34%
Other short-term financial liabilities	5,107	2020	from 0.00% to 7.97%
To associated companies – long term	870	>2021	No interest
Other long-term liabilities	8,941	2021/2023	No interest
Total	**134,638**		

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

14. Provisions

TCHF Development of provisions	Short-term provisions	Damages claims	Various provisions	Deferred tax provisions	Total
As at 31.12.2017	**0**	**0**	**5**	**17,417**	**17,422**
Change in scope of consolidation 1)	0	0	0	32	32
Provisions made	0	286	0	1,834	2,120
Provision used	0	0	0	0	0
Provision released	0	–286	0	–484	–770
Currency differences	0	0	0	–240	–240
As at 31.12.2018	**0**	**0**	**5**	**18,559**	**18,564**
Change in scope of consolidation 2)	0	0	–30,979	–237	–31,216
Provisions made 3)	4,903	0	32,929	3,653	41,485
Provisions 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**

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

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) Provisions formed in connection with the restructuring and for outstanding legal cases.

15. Share capital – mandatory convertible bond – hybrid capital – contingent capital
The share capital of HOCHDORF Holding Ltd of CHF 17,583,690 is higher by a nominal CHF 3,236,090 as of 31 December.2019. The increase results from the conversion of a nominal CHF 98,595,000 of the mandatory convertible bond. It is divided into 1,758,369 registered shares at a nominal value of CHF 10 each (2018: 1,434,760 registered shares).

During the financial year, conversions with a nominal value of CHF 98,595,000 took place for the mandatory convertible bond issued in 2017 with a nominal value of CHF 218.49 million. The outstanding nominal amount therefore reduced to CHF 119,895,000; duration from 30.3.2017 – 30.3.2020; interest rate of 3.5% for the entire term; conversion price CHF 304.67; securities number 35,275,641; ISIN CH0352756412; conversion period: 3 January 2018 up to and including 13 March 2020 (last trading day on the SIX).

The mandatory convertible bond is classified for the most part as equity. It is split into an equity component and a liabilities component. The liabilities component includes all future bond interest payments. They were discounted on the issue date of 30 March 2017 at an interest rate of 1%. This interest rate corresponds to the syndicated loan's margin at the time. As of 31 December 2019, these amounts were adjusted due to the conversion. Of the whole bond amount of CHF 218.49 million, CHF 133,285 million were effectively interest bearing from 30 March 2017 to 30 March 2018. From 1 April 2018, interest will be charged on the full bond amount. The effective interest payments will be drawn from the corresponding financial liabilities and will not be charged to income. Only the accrued interest of the relevant business year is recognised in interest costs.

HOCHDORF Holding Ltd has contingent capital of CHF 3,937,710 for the creation of 393,771 registered shares to service the mandatory convertible bond.

Likewise in 2017 (payment 21.12) HOCHDORF Holding Ltd issued a public hybrid bond with a nominal 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 June 2023). If this is not exercised, the amount of interest payable increases (step-up). Securities number 39,164,798; ISIN CH0391647986.

The hybrid bond is classified for the most part as equity due to its properties. It is split into an equity component and a liabilities component. The liabilities component includes all future bond interest payments up to the first call date. These were discounted on the issue date of 21 December 2017 at an interest rate of 1%. This interest rate corresponds to the syndicated loan's margin at the time. The effective interest payments will be drawn from the corresponding financial liabilities and will not be charged to income. Only the accrued interest of the relevant business year is recognised in interest costs.

A liabilities component is used on the grounds that the interest payments, which can, in principle, be delayed have to be paid up to and including 30 March 2020, according to the issue prospectus. This is because the interest payments for the hybrid bond cannot be suspended as long as interest is paid for the mandatory convertible bond (compulsory events), which will be the case until the bond matures on 30 March 2020. In addition, it can be assumed on the basis of the dividend policy of HOCHDORF Holding Ltd that no interest payments will be delayed until the first call date as a result of dividend payments.

Notes to the consolidated income statement

The following explanatory remarks are given to supplement the income statement, structured in accordance with the total cost of expenditure method (production income statement). The income statement items include the values of Thur Milch Ring AG for the first time in 2019 (from 1 January 2019). 2019 includes the values of HOCHDORF South Africa Pty (Ltd) until 31 June 2019 as it was sold at the end of June 2019. The values of Pharmalys Laboratories SA, Pharmalys Tunisie S.à.r.l. and Pharmalys Africa S.à.r.l. which were sold as of 13 December 2019, are included until 30 November 2019. A direct comparison with the prior year is only therefore of limited value.

16. Net revenue from deliveries and services

By product groups

Net sales include 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. In comparison with the previous year, the provisions must be offset accordingly.

TCHF	2019		2018	
Milk products/cream	193,110	42.27%	201,750	35.96%
Milk powder	174,111	38.12%	155,091	27.64%
Infant formula	71,222	15.59%	178,816	31.87%
Specialities	13,293	2.91%	20,572	3.67%
Bakery/confectionary goods	4,201	0.92%	4,707	0.84%
Other products/services	860	0.19%	95	0.02%
Total	**456,797**	**100.00%**	**561,031**	**100.00%**

By region

TCHF	2019		2018	
Switzerland/Liechtenstein	196,193	42.95%	196,329	34.99%
Europe	200,528	43.90%	206,820	36.87%
Asia	8,974	1.97%	6,217	1.11%
Middle East/Africa	46,215	10.12%	140,330	25.01%
USA/Canada	474	0.10%	335	0.06%
Americas (others)	4,410	0.96%	10,964	1.96%
Other [1)]	3	0.00%	36	0.00%
Total	**456,797**	**100.00%**	**561,031**	**100.00%**

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

By division

TCHF	2019		2018	
Dairy Ingredients	360,008	78.81%	354,419	63.17%
Baby Care	72,836	15.95%	175,960	31.37%
Cereals & Ingredients	23,953	5.24%	30,652	5.46%
Total	**456,797**	**100.00%**	**561,031**	**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	2019	2018
Various other operating income	1,493	2,700
Total	**1,493**	**2,700**

Various other operating income includes the renting of office and production space as well as private shares from employees for the use of vehicles as larger positions.

18. Personnel expenses

TCHF	2019	2018
Wages	–41,025	–42,517
Social contributions	–6,455	–6,794
Incidental wage costs incl. temporary staff	–3,277	–3,670
Total	**–50,757**	**–52,981**

19. Other operating expenses

TCHF	2019	2018
Facilities expenditure (incl. warehouse rents)	–5,151	–5,858
Maintenance, repairs	–8,930	–10,021
Vehicle and transport costs	–8,584	–10,803
Insurance, fees, duties	–2,103	–1,954
Energy and disposal expenditure	–18,440	–16,890
Administration and IT expenditure	–8,601	–5,974
Advertising costs incl. commissions to customers	–28,064	–24,842
Various other operating costs	–5,881	–6,611
Total	**–85,754**	**–82,953**

20. Financial result

TCHF	2019	2018
Interests from cash and cash equivalents	10	1
Revenues from holdings and financial assets incl. associated companies	736	0
Value adjustment from financial assets	1,223	0
Exchange rate gains	7,662	10,308
Total financial revenue	**9,631**	**10,309**
Interest costs	–6,968	–2,109
Expenses from shareholdings and financial assets incl. associated companies	0	–2,297
Value adjustment from financial assets	–264	–4
Deposit fees, fees	–1,078	–423
Exchange rate losses	–9,659	–13,614
Total financial costs	**–17,969**	**–18,447**
Total	**–8,338**	**–8,138**

21. Non-operating income

TCHF	2019	2018
Revenue from external properties	11	–9
Total	**11**	**–9**

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

22. Extraordinary income

TCHF	2019	2018
Profit from the disposal of operating fixed assets	–343	–103
Extraordinary result	0	6
Total	**–343**	**–97**

23. Taxes

TCHF	2019	2018
Current income taxes		
Taxes on operating result	–437	–3,086
Deferred income taxes		
Net change in deferred tax assets and liabilities	–3,023	1,337
Total	**–2,586**	**–1,749**

Valuation of deferred taxes occurs in line with the tax rates that are actually expected in meeting future tax liability or in the realisation of future receivables (liability method). The tax rate is 12.3% for companies exclusively based in the canton of Lucerne; it is 13.26% for HOCHDORF Swiss Nutrition Ltd with its production in the Thurgau canton. 15% was applied to the subsidiary in Welschenrohr; 25% was also applied to the subsidiaries in Germany and Uruguay. Due to the announced sales of Uckermärker Milch GmbH, Zifru Trockenprodukte GmbH and Snapz Foods AG, an impairment loss was recognised on the assets of these companies as a result of the expected low sales price, whereby the deferred tax provisions for both Uckermärker and Zifru were completely reversed.

For HOCHDORF Holding Ltd and HOCHDORF Swiss Nutrition Ltd, no active tax credit was formed on the loss carried forward, as there is no guarantee they can be offset against future profits within seven years. In connection with the corporate tax reform, HOCHDORF Holding Ltd will lose its holding privilege as of 1 January 2020 and will be taxed like the other Swiss companies. The loss recorded in 2019 can be carried forward for federal tax, but not for cantonal and municipal taxes. 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 9.77%. (Previous year 16.4%.)

Capital taxes are reported separately in operating costs. 2018 and years before have been definitively assessed for the Swiss companies. The companies abroad have been provisionally assessed.

24. Earnings per share

Earnings per share, basic

	2019	2018
Weighted average shares outstanding	1,453,643	1,404,931
Net profit after minority interests	–239,214,569	2,844,707
Earnings per share in CHF, basic	**–164.56**	**2.02**

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

Earnings per share, diluted

	2019	2018
Weighted average shares outstanding, basic	1,453,643	1,404,931
Dilution effect of convertible bond 1)	393,524	717,136
Weighted average shares outstanding, diluted	1,847,167	2,121,067
Net profit after minority interests	–239,214,569	2,844,707
Interest on convertible bond 2)	112,310	118,701
12% tax effect (interest on convertible bond*0.12/1.12)	–12,033	–12,718
Net profit after minority interests, diluted 3)	–239,114,292	2,950,690
Earnings per share in CHF, diluted	**–164.56**	**1.39**

1) The dilution is calculated from the mandatory convertible loan of CHF 218.49 million and the conversion price CHF 304.67, from which a maximum of 717,136 new shares are generated. The conversion period runs from 3 January 2018 up to and including 13 March 2020. As of 31 December 2019 a nominal amount of CHF 119,895,000 is still outstanding after the conversions already amounting to CHF 98,595,000.

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. Own shares

HOCHDORF Group pension fund

	2019	2018
Registered shares of HOCHDORF Holding Ltd	18,000	18,000
Total	**18,000**	**18,000**

Transactions with own shares

	2019	2018
Balance as at 1 January in units	**30,952**	**36,133**
At the average price per share of CHF	237.49	237.20
Purchases in units	0	8,110
At the average price per share of CHF	0.00	140.00
Sales/allocations in units	–1,214	–13,291
At an average price per share of CHF	115.79	264.62
Balance as at 31 December in units	**29,738**	**30,952**
At an average price per share of CHF	238.93	237.49

Share-based remuneration

In 2019, the Board of Directors decided that the Board of Directors' fees are to be paid in full in cash. In the case of Group Management, 30% of the variable remuneration is paid out in the form of HOCHDORF Holding Ltd shares. They are allocated at the volume-weighted average price of all transactions on the SIX on the day before allocation.

Allocation	Allocation date	Allocated securities	Volume-weighted average exchange rate (CHF)	Recognised expenses (CHF)
Variable remuneration paid to Group Management	18.3.2019	1,214	115.79	140,571.76

Further notes

Leasing debts

TCHF	2019	2018
Unrecognised leasing debts	359	54
Total	**359**	**54**

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

Liabilities from pension fund

TCHF	2019	2018
HOCHDORF Group pension fund	163	368
Total	**163**	**368**

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

Acquisitions

On 1 January 2019, HOCHDORF Holding Ltd acquired 56.47% of the shares in Thur Milch Ring AG, based in Ermatingen, Canton Thurgau, in connection with the strategic development of the Dairy Ingredients division, thus gaining control over the company. The company is a milk purchasing company for affiliated farmers in the canton of Thurgau.

The acquired net assets are as follows:

TCHF	Total
Cash and cash equivalents	406
Accounts receivables	1,981
Other short-term receivables	26
Accrued income	1
Financial assets	186
Trade payables	–2,078
Accrued liabilities and deferred income	–45
Provisions	–375
Identified net assets	**102**

In accordance with the Group guidelines, goodwill of TCHF 13 was offset against equity. The purchase price was paid in cash.

Divestment

On 30 June 2019 HOCHDORF Holding Ltd sold its 90% share of HOCHDORF South Africa (PTY) Ltd located in Cape Town (South Africa) as part of the streamlining of the Cereals & Ingredients division, and thus relinquished control.

The composition of the net assets sold was as follows:

TCHF	Total
Cash and cash equivalents	28
Accounts receivables	60
Other short-term receivables	8
Inventories	232
Other fixed assets	656
Trade payables	–2
Other short-term liabilities	–6
Long-term financial liabilities	–1,418
Provisions	–23
Identified net assets	**–465**

When the company was newly founded in May 2015, no goodwill arose which, according to our guidelines, would have had to be recognised in equity. The sale resulted in a positive value adjustment totalling CHF 468 thousand, of which CHF 447 thousand was posted through EBIT and CHF 21 thousand was posted through exchange rate gains. With this sale, the HOCHDORF Group is implementing part of the strategic decision to dissolve the Cereals & Ingredients division.

In 2018, the company generated net sales of CHF 341 thousand, with an EBIT of CHF –243 thousand. In the half-year report as of 30 June 2019, net sales of CHF 188 thousand were generated with an EBIT of CHF –53 thousand and a net profit of CHF 151 thousand, which resulted from a partial waiver of the loan of CHF 389 thousand granted by HOCHDORF Holding Ltd.

On 6 December 2019 HOCHDORF Holding Ltd sold its 51% share of Pharmalys Laboratories SA located in Hochdorf (Switzerland) as part of the restructuring of the Group, and thus relinquished control.

The composition of the net assets sold was as follows:

TCHF	Total
Cash and cash equivalents	2,336
Accounts receivables	57,782
Other short-term receivables	13,229
Trade payables	–1,624
Intercompany trade payables	–9,577
Other short-term liabilities	–291
Other short-term liabilities (related parties)	–3,835
Accrued liabilities and deferred income	–6,722
Long-term financial liabilities	–21,009
Provisions	–31,152
Identified net assets	**–863**

When the company was acquired in 2016, goodwill totalling CHF 239,089 thousand arose in connection with the purchase price allocation, which was offset against equity in accordance with our guidelines. The sale «revives» this goodwill, resulting in a negative value adjustment totalling CHF 139,899 thousand, which has a full impact on EBIT. With this sale, the HOCHDORF Group has significantly reduced the business risks in the Baby Care division.

In 2018, the company generated net sales of CHF 77.5 million with an EBIT of CHF 20.5 million. As at 30 November 2019, net sales (after provisions of CHF 32.8 million) amounted to CHF 13.2 million with an EBIT of CHF –41.6 million and a net loss of CHF –41.8 million.

On 6 December 2019 HOCHDORF Holding Ltd sold its 51% share of Pharmalys Tunisie S.à.r.l. located in Sousse (Tunisia) as part of the restructuring of the Group, and thus relinquished control.

The composition of the net assets sold was as follows:

TCHF	Total
Cash and cash equivalents	361
Other short-term receivables	24
Inventories	38
Property, plant	983
Other fixed assets	869
Intangible assets	20
Trade payables	–110
Short-term financial liabilities	–1
Other short-term liabilities	–4
Accrued liabilities and deferred income	–14
Long-term financial liabilities	–44
Provisions	–41
Identified net assets	**2,081**

When the company was acquired in 2016, no goodwill arose in connection with the purchase price allocation which, according to our guidelines, would have had to be recognised in equity. The sale resulted in a positive value adjustment totalling CHF 139 thousand, of which CHF 452 thousand was posted through EBIT and CHF –313 thousand was posted through exchange rate losses. With this sale, the HOCHDORF Group has significantly reduced the business risks in the Baby Care division.

In 2018, the company generated net sales of CHF 0 million with an EBIT of CHF –0.3 million. As at 30 November 2019, cumulative net sales of CHF 0 million were generated with an EBIT of CHF –0.2 million and a net loss of CHF –0.3 million.

On 6 December 2019 HOCHDORF Holding Ltd sold its 51% share of Pharmalys Africa S.à.r.l. located in Tunis (Tunisia) as part of the restructuring of the Group, and thus relinquished control.

The composition of the net assets sold was as follows:

TCHF	Total
Cash and cash equivalents	64
Accounts receivables	17
Other short-term receivables	13
Accrued income	325
Other fixed assets	11
Financial assets	52
Intangible assets	6
Trade payables	–217
Other short-term liabilities	–5
Accrued liabilities and deferred income	–145
Identified net assets	**121**

When the company was newly founded in November 2016, no goodwill arose which, according to our guidelines, would have had to be recognised in equity. The sale resulted in a negative value adjustment totalling CHF 12 thousand, of which CHF 2 thousand was posted through EBIT and CHF 10 thousand was posted through exchange rate losses. With this sale, the HOCHDORF Group has significantly reduced the business risks in the Baby Care division.

In 2018, the company generated net sales of CHF 1.8 million with an EBIT of CHF 0.05 million. As at 30 November 2019, cumulative net sales of CHF 1.4 million were generated with an EBIT of CHF 0.03 million and a net loss of CHF –9 thousand.

Discontinued divisions
In the second half of 2019, the Board of Directors reviewed the strategic orientation of the HOCHDORF Group and decided to discontinue the Cereals & Ingredients division, which includes the companies Marbacher Ölmühle GmbH, Zifru Trockenprodukte GmbH, Snapz Foods AG and Snapz Foods USA Inc, and to divest the companies and the wheat germ processing business. It was also decided to streamline the Dairy Ingredients division, including the sale of Uckermärker Milch GmbH. The figures for discontinued operations are as follows:

Dairy Ingredients Division

TCHF	2019	2018
Uckermärker Milch GmbH		
Net revenue from deliveries and services	158,911	145,358
Operating costs	–18,668	–17,900
EBIT (Earnings before Interest and Taxes)	–32,154	–4,545

Uckermärker Milch GmbH was fully allocated to the Dairy Ingredients division. The main sales market was the EU and Germany in particular. Due to the forthcoming sale, an impairment loss was recognised on the fixed assets.

Cereals & Ingredients Division:

TCHF	2019	2018
Marbacher Ölmühle GmbH		
Net revenue from deliveries and services	6,967	12,197
Operating costs	–1,561	–2,234
EBIT (Earnings before Interest and Taxes)	–339	–345
Zifru Trockenprodukte GmbH		
Net revenue from deliveries and services	1,725	1,412
Operating costs	–1,733	–1,529
EBIT (Earnings before Interest and Taxes)	–6,357	–1,123
Snapz Foods AG		
Net revenue from deliveries and services	111	246
Operating costs	–403	–507
EBIT (Earnings before Interest and Taxes)	–3,373	–1,241
Snapz Foods USA Inc.		
Net revenue from deliveries and services	329	48
Operating costs	–85	–29
EBIT (Earnings before Interest and Taxes)	–349	–48
Cereals & Ingredients innerhalb der HSN		
Net revenue from deliveries and services	15,613	17,317
Operating costs	–4,805	–5,759
EBIT (Earnings before Interest and Taxes)	–366	662

The listed subsidiaries were fully allocated to the Cereals & Ingredients division. Main sales markets were Switzerland and the EU, particularly Germany. There were also some sales in the US. Due to the pending sale, an impairment was made on the fixed assets of Zifru Trockenprodukte GmbH and Snapz Foods AG.

Goodwill offset against equity

Purchase costs

TCHF	2019	2018
As at 1 January	270,953	245,178
Adjustment of goodwill Pharmalys	0	–3,001
Sale of Pharmalys (revival of goodwill)	–239,089	0
Addition – Bimbosan	0	28,776
Addition – Thur Milch Ring AG	13	0
As at 31 December	**31,877**	**270,953**

Accumulated amortisation

TCHF	2019	2018
As at 1 January	–87,708	–35,436
Additions	–5,994	–52,272
Sale of Pharmalys	81,020	0
As at 31 December	**–12,682**	**–87,708**
Theoretical price as at 31 December	**19,195**	**183,245**

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 table.

TCHF	2019	2018
Net profit	–271,393	8,656
Depreciation of goodwill	–5,994	–52,272
Depreciation of goodwill correction from the sale of Pharmalys	81,020	0
Theoretical net profit	**–196,367**	**–43,616**

TCHF	2019	2018
Equity	248,953	280,847
Theoretical goodwill	19,195	183,245
Theoretical equity	**268,148**	**464,092**

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 2018. These cover deliveries of goods and raw materials as well as services to and from related companies.

Transactions with associated companies

TCHF	2019	2018
Net sales	123,976	116,390
Cost of goods	–54,601	–48,564
Service revenue	–543	–667
Service costs	–1	0
Financial revenue	761	16
Financial expenditure	–1,098	–15

Transactions with related companies

TCHF	2019	2018
Net revenue	130,069	48,208
Cost of goods	445	138
Service costs 1)	–2,127	–2,216
Operating expenses	–15,769	–9,311
Financial revenue	3,522	4,809
Financial expenditure	–3,814	–5,615

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

Contingent liabilities

There are no contingent liabilities.

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 the end of September 2023 and now amounts to a maximum of CHF 178 million. With the sale of Pharmalys Laboratories SA in December 2019 and the associated partial repayment, the limit is reduced to a maximum of CHF 129 million. The interest rate is between 1.0% and 5.5%, depending on the debt factor. As before, key financial indicators are the equity ratio and the debt factor. The financial ratio debt factor is deemed to have been violated as of 30 June 2020 if the adjusted EBITDA for the period from 1 January 2020 to 30 June 2020 is ≤ 0. A debt factor of 6.5x applies as of 31 December 2020, a debt factor of 5.0x as of 30 June and a debt factor of 4.0x as of 31 December. The equity ratio is 30% as of 31 December 2019 and 30 June 2020 and 40% as of 1 July 2020.

Assessment as a going concern

Development since 30.6.2019

The remarks of the Board of Directors on 30.6.2019 stated that at that time there were various uncertainties regarding the continuation of Pharmalys Laboratories SA and the refinancing of the Group. Since then, solutions have been found for both issues.

1) The existing syndicated loan agreement was extended on 23.10.2019. The credit line was supplemented with a new tranche D of CHF 30 million against a reduction of the previous tranche C from CHF 40 million to CHF 10 million. With the sale of Pharmalys Laboratories SA, the credit line was reduced by the elimination of tranche C (CHF 10 million) and the amortisation of tranche B (CHF 39 million) to CHF 129 million.

2) The shares of Pharmalys Laboratories SA were sold with effect from 13.12.2019 to the co-owner Pharmalys Invest Holding Ltd.

Existing uncertainties at 31.12.2019 and for the financial year 2020

The Board of Directors sees the following uncertainties, which require a special focus in the current financial year:

1) Receivables from Pharmalys Invest Holding AG: payment of the outstanding purchase price instalments from the sale of the shareholdings in the Pharmalys companies in the amount of CHF 60 million in accordance with the contractually agreed payment terms. Additional payment of the outstanding loan in the amount of CHF 4.1 million.

2) Compliance with the financial covenants from the credit agreement.

Assessment by the Board of Directors

The Board of Directors is of the opinion that sufficient security has been provided by the buyer to secure payment of the purchase price. Hochdorf Holding Ltd has established a directly enforceable guarantee from the owner of Pharmalys Invest Holding AG, Mr Amir Mechria, the rights to the existing and future trademark rights of Pharmalys Laboratories SA, and a lien on 51% of the shares in the same. Should there be a delay in the due payments of the purchase price instalments, the liquidity of the HOCHDORF Group would still be secured. Within the syndicated loan agreement, the Group also has access to more than CHF 25 million (as at: 14.2.2020), which can be used to finance business operations. If the receivable is not paid and the existing collateral cannot be realised, the corresponding write-down would have a negative impact on the equity situation and on HOCHDORF Holding Ltd's compliance with the financial ratios vis-à-vis the banks.

The budget approved by the Board of Directors for the 2020 financial year and the medium-term plan of the HOCHDORF Group show that based on this plan data, compliance with the financial covenants should be ensured throughout the entire planning period (until 2022). The EBITDA covenant of CHF >0 as of 30.6.2020 is not considered a risk, also due to the distribution of profits (HY-1/HY-2) in previous years. The EBITDA covenant of 31.12.2020 depends largely on the achievement of the budget for 2020 and is therefore subject to uncertainties.

The Board of Directors and Group Management believe that a continuation of the HOCHDORF Group can currently be assumed.

Events after the balance sheet date

After the balance sheet date and until the adoption of the consolidated financial statements by the Board of Directors, no significant events have occurred that could affect the informational value of the 2019 annual financial statements or which must be disclosed here.

On February 18, 2020, Board members Bernhard Merki, Jörg Riboni, Markus Kalberer and Dr Walter Locher declared that they would not be standing for re-election at the Annual General Meeting 2020.

On 26 February 2020, HOCHDORF Holding Ltd sold its 60% share in Uckermärker Milch GmbH. The closing took place on 28 February 2020. The sale resulted in a profit on the disposal of investments of around CHF 3.0 million.

In January 2020, the coronavirus began to spread from China at an increasing rate worldwide. The coronavirus epidemic may affect the business activities of the HOCHDORF Group, whereby the actual impact will depend on the further development and duration of the epidemic and cannot yet be estimated. The Group has introduced appropriate measures to protect its employees, production and products. To this end, a crisis team has been set up to closely monitor developments and decide on appropriate and necessary measures in a timely manner.

The consolidated financial statements were approved in their present form by the Board of Directors at its meeting on 18 March 2020.

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working world

To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 18 March 2020

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of HOCHDORF Holding Ltd., which comprise the consolidated balance sheet, consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes (pages 38 to 69) to the consolidated financial statements, for the year ended 31 December 2019.

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

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

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

Basis for Qualified Opinion
The ability of the HOCHDORF Group to continue as a going concern also depends in particular upon the payment of outstanding receivables by Pharmalys Invest Holding AG and the achievement of budget targets. Both of these aspects are important in order to be able to adhere to the financial covenants from the syndicated loan agreement. These circumstances point towards a material uncertainty, which can cast significant doubt upon the Company's ability to continue as a going concern. In our view, the note "Assessement as going concern" in the notes to the consolidated financial statements does not sufficiently convey this material uncertainty.

Qualified Opinion
In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the consolidated financial statements for the year ended 31 December 2019 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

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

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

Revenue recognition

Audit matter	The group applies different delivery terms (Incoterms) in its deliveries of goods to customers. This means that the risks and rewards of ownership are not always transferred to the customer at the same time, with deliveries shortly before the balance sheet date having an increased risk of the revenue not being recognized in the correct period. Furthermore, in accordance with Swiss Auditing Standards, we take the risk of fraud into account when determining our audit approach. The accounting principles for the recognition of revenue are disclosed in the notes to the consolidated financial statements. Income from the sale of goods and services is described in detail in note 16.
Our audit response	In our audit of revenue recognition, we gained an understanding of the relevant processes. In addition, we identified internal controls in the area of revenue/goods delivery, assessed their design and tested their effectiveness. Moreover, we performed sample tests on deliveries of goods, which occurred shortly before balance sheet date, with regard to the correctness of revenue allocation on the basis of contracts, invoices and delivery terms. Our audit procedures did not lead to any reservations concerning the revenue recognition.

Recoverability of the receivable from Pharmalys Invest Holding AG from the sale of shares in Pharmalys entities

Audit matter	HOCHDORF Holding AG sold its shares in the Pharmalys entities at a selling price of CHF 100m to Pharmalys Invest Holding AG. As of 31 December 2019, there are receivables in the amount of CHF 64.2m. These constitute a material item in the consolidated financial statements of the HOCHDORF Group. Any potential impairment loss can have a significant impact upon the earnings and equity of the HOCHDORF Group. Group Management must make corresponding assumptions in order to assess the recoverability of this receivable. The principles used to value receivables are set out in the notes to the consolidated financial statements under the item "Valuation methods". Details regarding the receivable from the sale of shares in the Pharmalys entities are provided in note 2 in the notes.
Our audit response	We audited the recoverability of the receivable from the sale of the Pharmalys entities based on the collateral pledged in the share purchase agreement and the assessment carried out by Group Management. Our audit did not lead to any reservations concerning the valuation of the receivables from Pharmalys Invest Holding AG from the sale of shares in the Pharmalys entities.

Compliance with financial covenants as a component of the credit agreement

Key audit matter	The syndicated loan agreement, which was renegotiated in October 2019, contains financial covenants, which must be adhered to at certain reporting dates. As set out in the notes under "Further notes" under the items "Syndicated loan" and "Assessement as a going concern", the Board of Directors and Group Management do not expect a breach of the financial covenants in 2020. A breach of the financial covenants could give rise to the lender renegotiating the terms of the credit facilities or demanding early repayment. The process in terms of compliance with the financial covenants is complex and contains estimates and assumptions. Compliance with the financial covenants is monitored on an ongoing basis by the Board of Directors and Group Management and is dependent upon the budget being met and the accuracy of the assumptions and estimates made.
Our audit response	We analyzed the budget and planning for the full-year 2020 together with our specialists and discussed the underlying assumptions and the basis for their estimation with Group Management and compiled our own sensitivity calculations. Our audit did not lead to any reservations concerning compliance with financial covenants.

Recoverability of property, plant and equipment

Key audit matter	Accounting for more than 56% of total assets, property, plant and equipment constitutes a material component of the HOCHDORF Group's consolidated financial statements. As indicated in note 5 in the notes, a large proportion of "other property, plant and equipment" is attributable to machinery and production equipment. This mainly relates to tower 9 of HOCHDORF Swiss Nutrition AG, which was completed in 2018. Any potential impairment loss due to underutilization can have a significant impact upon the earnings and equity of the HOCHDORF Group. In order to assess the recoverability, Group Management prepared a profitability statement based on a DCF analysis and, in doing so, had to make assumptions and estimates. Based on the announcement made in fiscal year 2019 to sell entities or to discontinue operations, Group Management assessed whether assets showed any indications of impairment. In order to assess any possible impairment, Group Management made assumptions and estimates regarding expected sales revenue. The principles used to value property, plant and equipment are set out in the notes to the consolidated financial statements under the item "Valuation methods". Details regarding property, plant and equipment are provided in note 5 in the notes.
Our audit response	We audited the profitability statement prepared by Group Management along with the assumptions and estimates made. Furthermore, we carried out sensitivity calculations with the aid of our valuation specialists. Our audit did not lead to any reservations concerning the recoverability of property, plant and equipment.

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

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

Despite the qualification set out in the “Basis for Qualified Opinion” paragraph, we recommend that the consolidated financial statements submitted to you be approved as the misstatement is not pervasive to the overall presentation of the financial statements.

Ernst & Young Ltd

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

HOCHDORF Holding Ltd

Balance sheet as at 31 December

CHF	2019	in %	2018	in %
Assets				
Cash and cash equivalents and short-term assets with market price	6,599,283	1.7%	6,568,753	1.1%
Accounts receivables				
– to related parties	25,490	0.0%	0	0.0%
– to shareholdings	28,010	0.0%	774,833	0.1%
Other short-term receivables				
– to third parties	48,890	0.0%	17,284	0.0%
– to related parties	64,190,851	16.3%	0	0.0%
Accrued income	79,604	0.0%	0	0.0%
Current assets	**70,972,082**	**18.0%**	**7,360,870**	**1.2%**
Financial assets	0	0.0%	30,000	0.0%
Loans to shareholdings	231,686,036	58.9%	261,980,998	42.3%
Shareholdings	90,554,524	23.0%	349,704,820	56.5%
Fixed assets	**322,240,561**	**82.0%**	**611,715,818**	**98.8%**
Total assets	**393,212,643**	**100.0%**	**619,076,687**	**100.0%**
Liabilities				
Short-term external capital				
Trade payables				
– to third parties	140,419	0.0%	156,796	0.0%
Short-term interest-bearing payables				
– to third parties	6,000,000	1.5%	0	0.0%
Other short-term liabilities				
– to third parties	1,113,925	0.3%	2,353	0.0%
Accrued liabilities and deferred income				
– to third parties	2,741,706	0.7%	3,605,413	0.6%
Short-term provisions	11,124,160	2.8%	0	0.0%
Long-term external capital				
Long-term interest-bearing payables				
– to third parties	340,895,000	86.7%	474,490,000	76.6%
– to shareholdings	96,070	0.0%	95,119	0.0%
Total liabilities	**362,111,280**	**92.1%**	**478,349,681**	**77.3%**
Share capital	17,583,690	4.5%	14,347,600	2.3%
Statutory capital reserves (capital investments)	154,637,956	39.3%	60,242,670	9.7%
General statutory profit reserves	10,172,000	2.6%	10,172,000	1.6%
Voluntary profit reserves	20,347,588	5.2%	20,347,588	3.3%
Balance sheet profit				
– profit carried forward	42,095,264	10.7%	51,875,760	8.4%
– earnings current year	–207,511,105	–52.8%	–9,780,496	–1.6%
Own shares	–6,224,030	–1.6%	–6,478,115	–1.0%
Shareholders' equity	**31,101,363**	**7.9%**	**140,727,007**	**22.7%**
Total liabilities and equity	**393,212,643**	**100.0%**	**619,076,687**	**100.0%**

HOCHDORF Holding Ltd

Income statement

	2019 CHF	2018 CHF
	1.1.19 – 31.12.19	1.1.18 – 31.12.18
Income from equity investments	192,199	7,705,749
Other financial revenue	4,831,276	7,126,425
Other operating income	–872	7,334
Total income	**5,022,602**	**14,839,508**
Financial expenses	–211,186,328	–24,148,691
Other operating expenses	–1,353,032	–416,950
Direct taxes	5,653	–54,363
Total expenses	**–212,533,707**	**–24,620,004**
Result for the year	**–207,511,105**	**–9,780,496**

HOCHDORF Holding Ltd

Notes to the annual financial statements for 2019

Notes in accordance with article 959c et seqq. CO

1. Company, name, registered office

HOCHDORF Holding Ltd, Siedereistrasse 9, 6280 Hochdorf LU
The holding does not have any staff.

2. Principles

General information

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

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

Cash and cash equivalents

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

Accounts receivable

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

Loans to shareholdings, financial assets

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

Own shares

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

3. Information on balance sheet and income statement items

3.1. Other short-term receivables to related parties

This item comprises 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 are 31 March 2020 (CHF 20 million) and 30 September 2020 (CHF 40.2 million).

3.2. Loans to shareholdings

TCHF	31.12.2019	31.12.2018
Loans to subsidiaries	247,903	261,981
Value adjustments to loans to subsidiaries	–16,217	0
Total	**231,686**	**261,981**

3.3. Shareholdings

			Capital in 1,000		Capital and voting share		
	Purpose	Currency	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Switzerland Milch-Gesellschaft Ltd, Hochdorf	Inactive	CHF	100	100	100%	100%	
HOCHDORF Swiss Nutrition Ltd, Hochdorf	Production	CHF	30,000	30,000	100%	100%	
Marbacher Ölmühle GmbH, Marbach, Germany	Production	EUR	2,000	2,000	100%	100%	
Uckermärker Milch GmbH, Prenzlau, Germany	Production	EUR	10,000	10,000	60%	60%	
Ostmilch Handels GmbH, Bad Homburg, Germany	Retail	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	Retail	EUR	25	25	26%	26%	
HOCHDORF America's Ltd, Montevideo, Uruguay	Retail	UYU	3,283	3,283	60%	60%	
HOCHDORF South Africa Ltd, SA Cape Town	Production	ZAR	n. a.	500	n. a.	90%	2)
Pharmalys Africa S.à.r.l., Tunis, Tunisia	Board of Directors	TND	n. a.	120	n. a.	51%	3)
Pharmalys Laboratories SA, Hochdorf	Retail	CHF	n. a.	100	n. a.	51%	3)
Pharmalys Tunisie S.à.r.l., Sousse, Tunisia	Production	TND	n. a.	3,300	n. a.	51%	3)
Snapz Foods AG, Hochdorf	Trade	CHF	100	100	65%	65%	
Zifru Trockenprodukte GmbH, Zittau, Germany	Production,	EUR	200	200	100%	100%	
Snapz Foods USA Inc., Wilmington	Trade	USD	50	50	65%	65%.	
Bimbosan AG, Welschenrohr, Switzerland	Production	CHF	350	350	100%	100%	
Thur Milch Ring AG, Ermatingen, Switzerland	Trade	CHF	170	n. a.	56%	n. a.	1)

1) Purchase of 56.47% as at 1.1.2019

2) Sale of 90% as at 30.6.2019

3) Sale of 51% as at 6.12.2019, closing 13.12.2019

The following changes took place in the reporting period (in TCHF):	31.12.2019
Shareholding value 1.1.2019	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.à.r.l. due to sale	-1,220
Disposal of shareholding in Pharmalys Africa S.à.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 Ostmilch Handels GmbH	-3,488
Addition of shareholding in Thur Milch Ring AG due to purchase	125

Shareholding value 31.12.2019	90,555

3.4 Short-term liabilities

TCHF	31.12.2019	31.12.2018
Services provided by third parties	140	157
Short-term interest-bearing liabilities	6,000	0
Other (government bodies)	1,114	2
Accrued liabilities and deferred income	2,742	0
Short-term provisions	11,124	0
Total	**21,120**	**159**

Tranche B of the syndicated loan is to be amortised by CHF 6 million by 31.12.2020

Short-term provisions include the provisions for the risk of the takeover of the loan from Commerzbank AG to Uckermärker Milch GmbH.

3.5. Long-term interest-bearing payables

TCHF	31.12.2019	31.12.2018
Syndicated loan	96,000	131,000
Long-term financial liabilities (bonds)	244,895	343,490
Loans of shareholdings	96	95
Total	**340,991**	**474,585**

Long-term financial liabilities include the outstanding CHF 119.895 million mandatory convertible bond and the outstanding CHF 125 million hybrid bond.

Maturity structure

TCHF	31.12.2019	31.12.2018
Up to 5 years	215,991	349,585
More than 5 years	125,000	125,000
Total	**340,991**	**474,585**

3.6. Financial expenses

TCHF	31.12.2019	31.12.2018
Interest costs	–16,107	–11,396
Expenses, procurement of credit	–608	–94
Deposit fees, fees (revenue stamp)	–409	–329
Exchange rate losses	–2,303	–3,017
Value adjustments on shareholdings	–15,652	0
Value adjustments on shareholdings from sale	–145,262	–9,313
Value adjustments on loans to subsidiaries	–19,333	0
Value adjustments on loans to subsidiaries from sale	–388	0
Provision for Commerzbank loan to Uckermärker Milch GmbH	–11,124	0
Total	**–211,186**	**–24,149**

3.7. Operating expenses

TCHF	31.12.2019	31.12.2018
Personnel expenses	-145	0
Property insurances, fees	-89	0
Administration and IT expenditure	-1,022	-366
Marketing and sales expenditure	-87	-1
Other operating expenses	-2	-2
Bank charges, agency fees	-8	-48
Total	**-1,353**	**-417**

4. Shareholders

>3%	31.12.2019	31.12.2018
Amir Mechria, Zug	18.34%	n. a.
Stichting General Holdings, Amersfoort	17.81%	4.23%
ZMP Invest AG, Lucerne	12.23%	14.51%
Weiss Family and Innovent Holding AG, Wollerau	4.65%	5.35%
Taaleri Plc., Helsinki	<3.00%	3.14%
Maurer Group, Hunzenschwil	<3.00%	3.04%

5. Transactions with own shares

Business year 2019			Business year 2018		
01.01.2019 balance	30,952 shares	at price 209.30	01.01.2018 balance	36,133 shares	at price 232.22
FY 2019 purchases	0 shares	at av. price 0.00	FY 2018 purchases	8,110 shares	at av. price 140.00
FY 2019 sales/allocations	1,214 shares	at av. price 115.79	FY 2018 sales/allocations	13,291 shares	at av. price 264.62
31.12.2019 balance	29,738 shares	at price 209.30	31.12.2018 balance	30,952 shares	at price 209.30

6. Contingent capital

As at 31 December 2019, HOCHDORF Holding Ltd had contingent capital in the nominal amount of CHF 3,937,710, corresponding to 393,771 registered shares at a nominal value of CHF 10. The contingent capital is reserved for the outstanding mandatory convertible bond with a term from 30.3.2017 to 30.3.2020.

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

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

Board of Directors

	Number of shares 31.12.2019	Number of shares 31.12.2018
Bernhard Merki, Chair, Personnel and Remuneration Committee; since 12.4.2019	5	n. a.
Jörg Riboni, Vice Chair, Audit Committee, Personnel and Remuneration Committee; since 12.4.2019	0	n. a.
Markus Kalberer, Audit Committee; since 12.4.2019	10	n. a.
Markus Bühlmann, Market and Strategy Committee; since 12.4.2019	0	n. a.
Dr Walter Locher, Audit Committee, Personnel and Remuneration Committee	1,713	1,713
Dr Daniel Suter, Chair, Audit Committee; until 12.4.2019	n. a.	895
Dr Anton von Weissenfluh, Vice Chair, Personnel and Remuneration Committee; until 12.4.2019	n. a.	1,809
Michiel de Ruiter, Market and Strategy Committee; until 30.9.2019	n. a.	225
Ulrike Sailer, Market and Strategy Committee, until 30.9.2019	n. a.	233
Niklaus Sauter, Audit Committee, Personnel and Remuneration Committee; until 12.4.2019	n. a.	620
Prof Dr Holger Karl-Herbert Till, Market and Strategy Committee; until 12.4.2019	n. a.	339
Total – Board of Directors	**1,728**	**5,834**

Group Management

Dr Peter Pfeilschifter, Interim CEO from 11.3.2019, CEO from 19.12.2019, Managing Director Dairy Ingredients	257	63
Jürgen Brandt, CFO from 18.11.2019	0	n. a.
Christoph Peternell, COO	658	170
Frank Hoogland, Managing Director Baby Care	482	290
Dr Thomas Eisenring, CEO until 8.3.2019	n. a.	2,309
Marcel Gavillet, CFO until 14.11.2019	n. a.	1,802
Total – Group Management	**1,397**	**4,634**
Total – Board of Directors and Group Management	**3,125**	**10,468**
in %	0.18%	0.73%

According to the remuneration regulations, 30% of the variable profit-sharing of Group Management is paid in the form of shares. Shares are allocated at the average price on the effective date before allocation. Other trading is carried out directly on a private basis.

8. Contingent liabilities

HOCHDORF Holding Ltd is liable as joint and several debtor by way of assuming the debt for the credit line a bank institute awarded to Uckermärker Milch GmbH for EUR 10 million. A provision is recorded for this amount (see point 3.2.).

9. Assessment as a going concern

9.1. Development since 30.06.2019

The notes to the consolidated half-year financial statements from the Board of Directors of 30.6.2019 stated that there were various uncertainties regarding the continuation of Pharmalys Laboratories SA and the refinancing of the Group at that time. Solutions have been found for both issues in the meantime.

1) The existing syndicated loan agreement was extended on 23.10.2019. The credit line was supplemented with a new tranche D of CHF 30 million against a reduction of the previous tranche C from CHF 40 million to CHF 10 million. With the sale of Pharmalys Laboratories SA, the credit line was reduced by the elimination of tranche C (CHF 10 million) and the amortisation of tranche B (CHF 39 million) to CHF 129 million.
2) The shares of Pharmalys Laboratories SA were sold with effect from 13.12.2019 to the co-owner Pharmalys Invest Holding AG.

9.2. Uncertainties at 31.12.2019 and for the 2020 business year

The Board of Directors sees the following uncertainties, which require a special focus in the current financial year:

1) Receivables from Pharmalys Invest Holding AG: payment of the outstanding purchase price instalments from the sale of the shareholdings in the Pharmalys companies in the amount of CHF 60 million in accordance with the contractually agreed payment terms. Additionally, the payment of the outstanding loan in the amount of CHF 4.1 million.
2) Compliance with the financial covenants from the credit agreement.

9.3. Assessment by the Board of Directors

The Board of Directors is of the opinion that sufficient security has been provided by the buyer to secure payment of the purchase price. Hochdorf Holding Ltd has established a directly enforceable guarantee from the owner of Pharmalys Invest Holding AG, Mr Amir Mechria, the rights to the existing and future trademark rights of Pharmalys Laboratories SA, and a lien on 51% of the shares in the same. Should there be a delay in the due payments of the purchase price instalments, the liquidity of the HOCHDORF Group would still be secured. Within the syndicated loan agreement, the Group also has access to more than CHF 25 million (as at: 14.2.2020), which can be used to finance business operations. If the receivable is not paid and the existing collateral cannot be realised, the corresponding write-down would have a negative impact on the equity situation and on HOCHDORF Holding Ltd's compliance with the financial ratios vis-à-vis the banks.

The budget approved by the Board of Directors for the 2020 financial year and the medium-term plan of the HOCHDORF Group show that based on this plan data, compliance with the financial covenants should be ensured throughout the entire planning period (until 2022). The EBITDA covenant of CHF >0 as of 30.6.2020 is not considered a risk, also due to the distribution of profits (HY-1/HY-2) in previous years. The EBITDA covenant of 31.12.2020 depends largely on the achievement of the budget for 2020 and is therefore subject to uncertainties.

The Board of Directors and Group Management believe that a continuation of the HOCHDORF Group can currently be assumed.

HOCHDORF Holding Ltd

Proposed appropriation of available earnings

	31.12.2019 CHF	31.12.2018 CHF
Profit carried forward	42,095,264	51,735,700
Change correction on balance of own shares from the previous year 1)	0	140,060
Profit current year	–207,511,105	–9,780,496
Total available to Annual General Meeting	**–166,415,840**	**42,095,264**

Motion concerning the proposed appropriation of available earnings

Balance carried forward	–165,415,840	42,095,264
Total appropriation of profit	**–165,415,840**	**42,095,264**

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

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

Reserves from capital investments	**60,242,669**	**60,242,669**
Capital investments from conversion of convertible bond 2)	94,395,287	0
Remaining reserves from capital investments	**154,637,956**	**60,242,669**

2) Conversions of nominal CHF 98,595,000 took place until 31.12.2019. Settlement of issue tax on conversion with capital contribution.

Building a better working world

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To the General Meeting of
HOCHDORF Holding Ltd., Hochdorf

Lucerne, 18 March 2020

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of HOCHDORF Holding Ltd., which comprise the balance sheet, income statement and notes (pages 75 to 83), for the year ended 31 December 2019.

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

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

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

Basis for qualified opinion
The ability of HOCHDORF Holding AG to continue as a going concern also depends in particular upon the payment of outstanding receivables by Pharmalys Invest Holding AG and the attainment of budget targets. Both of these aspects are important in order to be able to adhere to the financial covenants from the syndicated loan agreement. These circumstances point towards a material uncertainty, which can cast significant doubt upon the Company's ability to continue as a going concern. In our view, the note 9 "Assessement as a going concern" in the notes to the financial statements does not sufficiently convey this material uncertainty.

Qualified Opinion
In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements for the year ended 31 December 2019 comply with Swiss law and the company's articles of incorporation.

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

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

Valuation of investments

Audit matter	HOCHDORF Holding AG holds all of the key investments of the HOCHDORF Group. Furthermore, HOCHDORF Holding AG finances its own subsidiaries using loans. The investments and loans constitute a material component of its assets. Any potential impairment loss can have a significant impact upon the earnings and equity of HOCHDORF Holding AG. If there is an indication of impairment, Management prepares valuations based on the discounted cash flow model and evaluates the recoverability of the loans using the future outlook that has been prepared. The valuation principles used for investments and loans can be found under note 2 in the notes to the financial statements of HOCHDORF Holding AG. In addition, the list of investments under note 3.1 in the notes to the financial statements provides information on direct and indirect investments.
Our audit response	We gained an understanding regarding the identification of indicators of possible impairments from Management. We audited the valuation of investments using the annual financial statements and the DCF calculations presented to us. We audited the model used for the DCF calculation and scrutinized the capitalization rate. We called upon specialists in order to evaluate the capitalization rate. Furthermore, we questioned Management regarding the strategies and future outlook for subsidiaries. We also scrutinized the appropriateness of the assumptions used for the valuations and audited these for consistency. Our audit did not lead to any reservations concerning the recoverability of investments and loans.

Recoverability of the receivable from Pharmalys Invest Holding AG from the sale of shares in Pharmalys entities

Audit matter	HOCHDORF Holding AG sold its shares in the Pharmalys entities at a selling price of CHF 100m to Pharmalys Invest Holding AG. As of 31 December 2019, there are receivables in the amount of CHF 64.2m. These constitute a material item in the annual financial statements of the HOCHDORF Holding AG. Any potential impairment loss can have a significant impact upon the earnings and equity of HOCHDORF Holding AG. Management must make corresponding assumptions in order to assess the recoverability of this receivable. The principles used to value receivables are set out in the notes to the financial statements under note 2. Details regarding the receivable from the sale of shares in the Pharmalys entities are provided in note 3.1 in the notes.
Our audit response	We audited the recoverability of the receivable from the sale of the Pharmalys entities based on the collateral pledged in the sales agreement and the assessment carried out by Management. Our audit did not lead to any reservations concerning the valuation of the receivables from Pharmalys Invest Holding AG from the sale of shares in the Pharmalys entities.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company’s articles of incorporation. Despite the qualification set out in the “Basis for Qualified Opinion” paragraph, we recommend that the financial statements submitted to you be approved as the misstatement is not pervasive to the overall presentation of the financial statements.

Ernst & Young Ltd

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

Sustainability key figures

Every two years, the HOCHDORF Group publishes a detailed sustainability report along with its annual report covering the issues of employees, energy and society. The last detailed sustainability report appeared in the 2018 Annual Report. The most important key figures for 2019 are detailed below.

Our employees

s at the end of 2019, the HOCHDORF Group had a total of 618 employees; compared with the previous year, this represents a decrease of 76 people. Of these, 41 belong to the subsidiaries sold. The remaining reductions in staff can be mainly explained by the restructuring of HOCHDORF Swiss Nutrition Ltd. This affected the Cereals & Ingredients division in particular. Due to the relatively high fluctuation, it was possible to avoid lay-offs in most cases during the restructuring.

HOCHDORF has always been a training company. In 2019, the HOCHDORF Group trained a total of 39 apprentices in 15 professions at its sites in Switzerland and Germany.

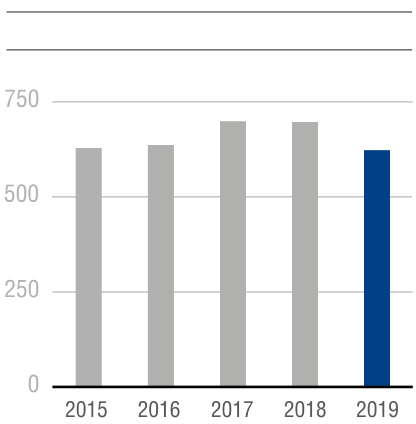
Energy and environment

Compared to the previous year, energy consumption increased in absolute figures by 3.1% to 252.4 gigawatt hours (previous year: 244.6 GWh). However, energy consumption per tonne of manufactured products was reduced by 10.7% to 1,544 kWh of energy (previous year: 1,730 kWh/t). On the one hand, this shows that well utilised plants result in more efficient production: the quantity produced compared to the previous year rose by 15.6% to 163,396 tonnes. On the other hand, various measures ensured that energy efficiency improved. HOCHDORF Swiss Nutrition Ltd was able to comply well with the cantonal requirements for increasing energy efficiency.

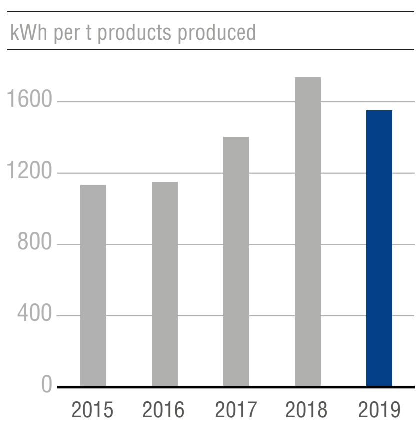
In absolute terms, the use of fossil fuels was reduced by 8.7% to 132.8 GWh at the Swiss plants. This led to a corresponding reduction in the absolute CO_2 emissions. Across the whole of the HOCHDORF Group, there was a 17% reduction in CO_2 emissions per produced tonne of product to 305.3 kg CO_2 (previous year 367.7 kg CO_2/t).

Since 2018, the Hochdorf plant has been using reverse osmosis and mechanical vapour recompression, which are powered by electricity, to concentrate milk. Natural gas was used previously to concentrate milk. The employee canteen at the Sulgen plant was connected to the heat recovery system in the reporting year. The building was heated previously using heating oil.

Number of employees



Energy use (fossil fuels and electricity)



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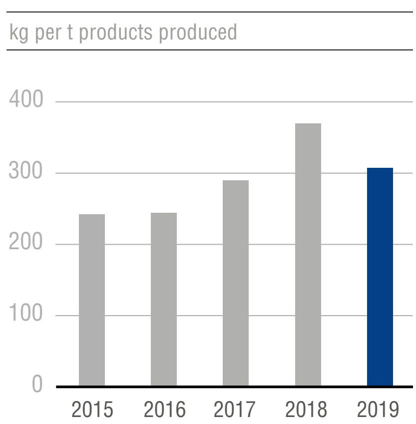

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Financial calendar

Annual General Meeting:	30 June 2020
Half-yearly statement:	17 August 2020

The information within our Annual Report is originally published in German. Discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purposes. If any questions arise related to the accuracy of the information contained in the translation, please refer to the German version of our Annual Report, which is the official and only binding version.

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